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05-US-113

SEP 20 2002

BEFORE THE PUBLIC SERVICE COMMISSION OF WISCONSIN  
TELECOMMUNICATIONS DIVISION  
IN PUBLIC SERVICE COMMISSION

In the Matter of Prescribing a Uniform  
System of Accounts for Class A and Class B  
Telephone Utilities ]

2002 SEP 20 A 11:08  
Docket No. US-05-113

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COMMENTS OF WISCONSIN BELL, INC., D/B/A/ AMERITECH WISCONSIN

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As requested by the Public Service Commission of Wisconsin in the Notice of Investigation dated August 19, 2002, comments are being provided concerning possible revisions to the Uniform System of Accounts as prescribed by the PSCW. Comments have been incorporated directly into the summary document provided by Commission staff at the July 24, 2002 meeting with the ILECs and interested parties.

Generally speaking, Ameritech Wisconsin recommends that the PSCW adopt all revisions to the FCC's Uniform System of Accounts effective January 1, 2003. The FCC has considered requests and recommendations provided by all commenters in the Phase I, Phase II and Phase III review of CC Docket No. 00-199 pertaining to the 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers. The FCC has effectively evaluated potential risks to ratepayers, efficiencies for carriers, competitive impacts upon the telecommunications industry, impacts upon other regulatory processes (e.g. separations, interstate access rate development, cost studies, wholesale rate development, cost allocations, ARMIS reporting etc.), and the dual jurisdictional responsibilities of the federal and state commissions.

The FCC's final order specifically considered the comments of all state commissions when deciding to eliminate and/or consolidate existing accounts and whether to add new accounts in the "Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286" dated November 5, 2001 (¶57 through ¶75). While sub-accounts were added for circuit and packet switching, electronic

MFC  
COB  
AC5  
O&C 2  
Tel 5

and optical circuit equipment, and wholesale and retail sub-accounts for Customer Services, the FCC denied the request to add loop and interoffice sub-accounts, UNE specific revenue and expense accounts, and USF related sub-accounts based upon the evidence presented.

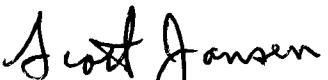
The FCC also rightfully acknowledged the importance of uniform accounting in ¶21 of the Report and Order:

“Uniformity provides efficiency to the regulatory process for both federal and state regulators because regulators need only have expertise in one accounting system. Uniformity among states allows regulators or other interested parties to compare and benchmark the costs and rates of incumbent carriers operating in various states. A comparative analysis of these costs could be hindered, at least to some extent, if that data were too aggregated. At a reduced level of detail, data could mask important inter-company differences in utilization of various technologies and deployment of various types of plant. One goal of our reform of accounting and reporting requirements is to determine whether those regulatory benefits are outweighed by the burdens imposed on carriers and ratepayers.”

For carriers such as SBC that provide local telecommunications services in multiple state jurisdictions, any deviation from the FCC's “uniform” accounting rules presents an unnecessary burden for the carrier to build and maintain state specific accounting rules, accounts, reports, systems and ledgers.

Ameritech Wisconsin believes that Wisconsin ratepayers, carriers and competitors are fundamentally similar to the ratepayers, carriers and competitors of other states where commissions have fully adopted the FCC's revised accounting rules. Furthermore, as a price regulated telecommunications utility operating in Wisconsin, ratepayers are protected through price-capped rates for basic services. Competitors have access to open networks and ILEC customers in the local marketplace. Further deviation from the FCC's accounting rules and regulations are not required to protect Wisconsin ratepayers or to foster competition.

Respectfully Submitted,

  
Scott Jansen  
Director-Regulatory Finance  
SBC Ameritech Wisconsin

**Part 32 – Uniform System of Accounts (USOA) for Class A and Class B Telephone Utilities**

Docket 05-US-113

Commission Staff Comparison of the Public Service Commission of Wisconsin's (PSCW) Current USOA (With Selected Additional Accounts Suggested in Comments Filed by the PSCW) and the Federal Communications Commission's (FCC) Part 32 USOA to be Effective January 1, 2003 – Prepared for Discussion Purposes on July 24, 2002

| Part 32 Section | Section Title                   | Comment   |
|-----------------|---------------------------------|---|
| 32.11           | Classification of companies     | <p>FCC's Class A and Class B classification is based on revenues, whereas PSCW's classification is access-line based.</p> <p><b><u>Ameritech Wisconsin comment:</u></b> <i>The FCC has added a new paragraph (a) to define "company" or "companies" to mean the incumbent local exchange carrier or any other carrier that the Commission designates by Order. Given the competitive nature of local markets in Wisconsin, the PSCW should include similar language in the PSCW's Uniform System of Accounts to recognize that the rules could apply to companies other than the ILEC. Agree with WSTA comments to continue Class "A" and "B" designation and reporting requirements based upon access lines as described in 196.01 (8).</i></p>  |
| 32.16           | Changes in Accounting Standards | <p>PSCW's USOA requires revenue requirement study or analysis with notification of intent to adopt an accounting standards change; PSCW's USOA also includes paragraph (c) that specifies that LEC shall notify the PSCW of matters of significance, defined both qualitatively and quantitatively.</p> <p><b><u>Ameritech Wisconsin comment:</u></b> <i>As a price-regulated telecommunications utility, revenue requirements are no longer used to determine rates for AW customers. The rates for basic local exchange services are established and frozen per the rules and methods established in Wisconsin Statute 196.196 (1)(b). As such, the revenue requirement study/analysis currently required of all carriers to adopt an accounting standards change according to the PSCW's Uniform System of Accounts should be eliminated for price-regulated telecommunications utilities. AW further recommends that the elimination of the revenue requirement study be extended to all carriers as articulated in the WSTA comment.</i></p> |
| 32.24           | Compensated Absences            | <p>PSCW's USOA requires approval by the PSCW to record entry.</p> <p><b><u>Ameritech Wisconsin comment:</u></b> <i>The FCC has changed the accounts for recording the liability (from account 4120 to 4130) and the deferred charge (from account 1439 to 1438) when recognizing deferred compensated absence expense. The straight-line amortization method has not changed. AW therefore suggests that the PSCW adopt the usage of these accounts and the FCC's revised language in 32.24 (b).</i></p>  |

| Part 32 Section | Section Title                | Comment  |
|-----------------|------------------------------|--|
| 32.27           | Transactions with Affiliates | <p>PSCW did not previously adopt FCC's § 32.27 because of jurisdiction provided by Wis. Stat. § 196.52; tariff, prevailing price, higher of cost or fair market value (HOCOM), or lower of cost or fair market value (LOCOM) options provided in FCC's USOA; floor and ceiling encompassed in FCC's USOA; \$500,000 threshold for market studies in FCC's USOA; FCC's prevailing price threshold of greater than 25 percent of sales to third parties, except for section 272 activity; FCC's paragraph (f) exempts LECs that settle interstate activity on average schedule basis; PSCW addressed HOCOM in Chibardan Telephone Cooperative's 1090-TI-100 order; PSCW addressed LOCOM and rejected centralized services exception in CenturyTel-Kendall's 2815-TR-103 2001 rate order.</p> <p><u>Ameritech Wisconsin comment:</u> <i>Wisconsin Stat. §196.52 provides the definition of an “affiliated interest” and “contract”, establishes the rules for affiliate agreements and defines the PSCW’s supervisory authority in such matters. Wisconsin Stat. §196.204 establishes the rules and limitations for cross-subsidization pertaining to telecommunications utilities. Wisconsin Stat. §196.219 establishes the rules for the protection of telecommunications customers. The PSCW may enforce these statutes when reviewing a telecommunication utility’s affiliate activities. However, none of these statutes establishes or defines a comprehensive accounting treatment of affiliated transactions. AW therefore recommends that the PSCW adopt comprehensive accounting rules in order to consistently regulate affiliate transactions involving Wisconsin telecommunications utilities. Since the FCC’s rules for transactions with affiliates established in 47 C.F.R. §32.27 (a) through (f) provide a comprehensive set of accounting rules and controls, AW recommends that the PSCW adopt the FCC’s rules and incorporate the amendments to §32.27 approved by the FCC in CC Docket 00-199. Realizing that the FCC considered consumer risks, carrier costs/burdens and cross-subsidization concerns prior to establishing the affiliate transaction rule modifications, the implementation of the FCC’s affiliate rules in §32.27 does not limit the PSCW’s ability to enforce the above referenced Wisconsin statutes. Please refer to the FCC’s discussion of accounting safeguards and ratepayer protection regarding the subsidization of competitive activities and affiliate activities in the Report and Order (Docket CC 00-199) dated November 5, 2001. Specifically, paragraphs 85-86 outline the safeguards considered when adopting the modified affiliate rules in §32.27. It should also be noted that when the USOA (Part 32) was implemented in 1988, carriers were operating in a cost based rate-of-return framework where affiliate costs were included in the rate base. Under price regulation and alternative regulation frameworks, prices for basic services are capped. Potential cost shifts created by affiliate pricing no longer results in a corresponding increase in regulated basic service rates.</i></p> |

| Part 32 Section | Section Title                                    | Point of Notification   | Comment |
|-----------------|--|---|---------|
| 32.27(a)        |  | Replace the Chief, Common Carrier Bureau” reference in the FCC’s USOA to reflect the Public Service Commission of Wisconsin as the point of contact in the state USOA.  |         |
| 32.27(b)        | Sales and Purchases of ASSETS between affiliates | FCC valuation methods for asset sales/purchase transactions between a carrier and affiliate require the transaction(s) to be recorded at a tariffed or prevailing price. In the absence of these prices, the FCC established floor, ceiling and threshold rules pertaining to the valuation of assets on a fair market value (FMV) or net book value (NBV) basis. The “floor” established in §32.27(b)(1) would permit the carrier to sell/transfer an asset to an affiliate at a price above the higher of FMV or NBV. The “ceiling” established in §32.27(b)(2) would permit the carrier to buy/transfer an asset from an affiliate at a price below the lower of FMV or NBV. Each of these scenarios benefits the carrier’s ratepayer, which is a principle consistent with the cross-subsidization rules established in Wisconsin Stat. §196.204. Furthermore, the FCC’s discussion of any risks associated with the “floor” and “ceiling” concepts were considered <i>de minimis</i> (see Report and Order dated November 5, 2001 in Docket CC 00-199, paragraph 92). The “threshold” established in §32.27(b)(3) requires the carrier to make a good faith effort to determine the fair market value of an asset when the aggregate total asset sales/purchases between a carrier and an affiliate reaches or exceeds \$500,000. If the aggregate annual value of the asset sales/purchases between a carrier and affiliate falls below the threshold, the transactions shall be recorded at net book value, i.e. no fair market value study required. The administrative costs and regulatory benefits of applying the \$500,000 threshold to asset sales/purchases between these affiliates are considered in paragraphs 87-90 of the FCC’s Report and Order stated above. The FCC considered the regulatory benefits to outweigh the administrative costs when the threshold was considered at \$1,000,000; i.e. the FCC denied the request of commenters to raise the threshold. AW recommends that the PSCW therefore adopt each of these rules and valuation methods outlined in §32.27 (b) as they pose little to no risk to Wisconsin ratepayers while consolidating and streamlining regulatory accounting methods on a state and federal basis for the carrier. |         |

| Part 32 Section | Section Title   | Comment   |
|-----------------|---|---|
| 32.27(c)        | <i>Sales and Purchases of SERVICES between affiliates</i> | <p>FCC valuation methods for service transactions between a carrier and affiliate require the transaction(s) to be recorded at a tariffed or prevailing price. In the absence of these prices, the FCC established floor, ceiling and threshold rules pertaining to the valuation of services on a fair market value (FMV) or fully distributed cost (FDC) basis. The “floor” established in §32.27(c)(1) would permit the carrier to provide services to an affiliate at a price above the higher of FMV or FDC. The “ceiling” established in §32.27(c)(2) would permit the carrier to receive services from an affiliate at a price below the lower of FMV or FDC. Each of these scenarios benefits the carrier’s ratepayer, which is a principle consistent with the cross-subsidization rules established in Wisconsin Stat. §196.204. The \$500,000 “threshold” allowance for fair market value studies for services as defined in §32.27(c)(3) already existed in the FCC’s USOA. Likewise, the centralized services exception, that is allowing services purchased by a carrier from an affiliate that exists solely to provide services to members of the carrier’s corporate family shall be recorded at FDC, also preexisted the November 5, 2001 Report and Order. While USTA sought to expand the centralized service exception to allow affiliates to provide some services to third parties and still qualify for the exception, the FCC rejected the proposal. The FCC retained the centralized service exception because “an affiliate that provides services solely to the incumbent carrier’s corporate family is established to take advantage of economies of scale and scope. The benefits of such economies of scale and scope are reflected in the affiliate’s costs and are ultimately transferred to ratepayers through transactions with the incumbent carrier for such services valued at fully distributed costs.” (November 5, 2001 Report and Order in Docket CC 00-199 paragraph 96). This logic is consistent with the cross –subsidization rules established in Wisconsin Stat. §196.204. AW therefore recommends that the PSCW adopt each of these rules, valuation methods, and exceptions outlined in §32.27 (c) as they pose little to no risk to Wisconsin ratepayers while consolidating and streamlining regulatory accounting methods on a state and federal basis for the carrier. Furthermore, if Wisconsin remains the only SBC jurisdiction that does not grant the centralized services exception, the administrative and operational costs incurred by the SBC service companies to comply with the Wisconsin specific affiliate rules will ultimately be passed along to Wisconsin ratepayers. It would seem logical that ratepayers would rather benefit from the adoption of the FCC’s exception.</p> |

| Part 32 Section | Section Title                   | Comment  |
|-----------------|---------------------------------|--|
| 32.27(d)        | <b>Pervailing Price</b>         | <p><i>The FCC has lowered the required percentage sales of a particular asset/service to the third parties from 50% to 25% of the total sales of the asset/service of an entity. The prevailing price describes the price at which a company offers an asset or service to the general public, i.e. market based price. The FCC has determined that 25% of an entity's sales does produce a reasonable surrogate of a true market price.</i></p> <p><i>Furthermore, the FCC reasoned that a carrier/affiliate would not necessarily undervalue an asset or service to 25% of its unaffiliated customers simply to provide an asset or service to an affiliate at a lower price. The 25% prevailing price threshold allows the carrier's rate payers to receive the advantages of the competitive marketplace for assets and services established by market pricing in the absence of tariff pricing. For these reasons, AW recommends that the PSCW adopt the prevailing price 25% threshold and rules established in §32.27(d).</i></p> |
| 32.1170         | Receivables                     | <p>FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable from other receivables, as suggested by the PSCW. <u>Ameritech Wisconsin comment:</u> <i>Although the USOA does not establish specific affiliate and non-affiliate receivable sub accounts in the chart of accounts, carriers are able to identify and report balances accordingly, e.g. ARMLS 43-02 schedules and PSCW Annual Report (pages 15 and 16). The FCC's subsidiary record requirement in §32.1170(h) should be adopted in the Wisconsin USOA. Also see note for §32.4340</i></p>   |
| 32.1171         | Allowance for doubtful accounts | <p>FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable allowance from other receivables allowance, as suggested by the PSCW. <u>Ameritech Wisconsin comment:</u> <i>See comment for account 1170 regarding a carrier's ability to identify and report affiliate/non-affiliate activity in the PSCW Annual report.</i></p>  |
| 32.1410         | Other noncurrent assets         | <p>PSCW had requested that affiliated portion of investments in affiliates and affiliated portion of sinking funds be identified; unclear if FCC's subsidiary record requirement for advances to affiliates covers this. <u>Ameritech Wisconsin comment:</u> <i>This account serves as a summary account for non-current assets not reported in other accounts. To distinguish between assets, unamortized asset balances, book valuations, etc., as required by §32.1410(a)-(k), the carrier will be required to maintain detailed subsidiary record information. These records can also be used to differentiate between affiliate and non-affiliate balances for reporting on page 16 of the PSCW Annual Report. The PSCW should therefore adopt the FCC's rules for §32.1410.</i></p>  |

| Part 32 Section | Section Title                                      | Comment   |
|-----------------|--|---|
| 32.2000         | Instructions for telecommunications plant accounts | <p>PSCW has not yet adopted consolidation of accounts 2114 through 2116 into 2114, Tools and other work equipment; PSCW's USOA provides that Class B LECs may elect to continue to capitalize items costing between \$500 to \$2,000 provided that verifiable inventory records are maintained; FCC's USOA provides that cost of tools and test equipment located in the central office, classifiable to accounts 2210-2232 costing \$2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts; PSCW has not yet adopted account 2007, Goodwill; PSCW requires filing and approval of journal entries for acquisitions of plant where consideration is \$100,000 or greater; is calculation of a theoretical reserve for the acquired plant required (per § 32.2005 "reserve requirements" language)?; PSCW's USOA mentions Wis. Stat. § 196.09(1) as it concerns depreciation charges; perhaps reference should be changed to § 196.09(9) due to language changes in 1993 Wisconsin Act 496.</p> <p><b>Ameritech Wisconsin comment:</b> <i>In order to minimize the administrative costs/burden associated with maintaining more than one continuing property record for plant assets, AW recommends that the PSCW remain consistent with the FCC's rules and adopt all revisions to §32.2000. Specific rule changes would include application of the \$2,000 expense limit to central office tools and tests sets, incorporation of Goodwill (account 2007) into the Wisconsin USOA, and consolidation of account 2114 through 2116 into account 2114 (Tools and Other Work Equipment). Furthermore, AW agrees with the following changes pertaining to §32.2000:</i></p> <ul style="list-style-type: none"> <li>➤ <i>the reference to depreciation rates and practices in the Wisconsin USOA §32.2000(g)(2)(ii) should be changed to either §196.09 or §196.09 (9), which applies to telecommunications utilities</i></li> <li>➤ <i>the applicable references to account 1439 in §32.2000(b)(2) should be modified to reference account 1438, which has replaced account 1439 in the FCC's USOA</i></li> <li>➤ <i>§32.2000(b)(2)(iv) should be modified to include the reference to account 2007 (Goodwill) when recording the acquisition of plant</i></li> <li>➤ <i>the reference to account 7340 (Allowance for funds used during construction) in §32.2000(c)(2)(x) should be changed to account 7300 as the FCC has consolidated account 7340 into account 7300</i></li> <li>➤ <i>the reference to account 6711 (Executive) in §32.2000(c)(2)(xiii) should be changed to account 6720 as the FCC has consolidated account 6711 into account 6720</i></li> </ul> |

| Part 32 Section | Section Title                                      | Comment   |
|-----------------|--|---|
| 32.2000         | Instructions for telecommunications plant accounts | <ul style="list-style-type: none"> <li>➤ §32.2000(d)(4)(i) pertaining to Telecommunications Plant Retired should be modified to include the amortization of charges to account 2007 (Goodwill)</li> <li>➤ §32.2000(d)(4)(ii) pertaining to Telecommunications Plant Retired should be modified to reference account 7100 rather than account 7150 which was eliminated/consolidated in the FCC's USOA</li> <li>➤ §32.2000(d)(5) pertaining to Telecommunications Plant Retired should be modified to reference account 7300 rather than account 7350 which was eliminated/consolidated in the FCC's USOA</li> <li>➤ §32.2000(f)(3)(i) pertaining to Unit Identification should be modified to reference account 2114 as "Tools and other work equipment" and remove the current reference to "Garage Work Equipment" as the title of account 2114 in the FCC's USOA was modified as a result of the consolidation of accounts 2115 and 2116 in account 2114</li> <li>➤ §32.2000(g)(3) pertaining to Acquired Depreciable Plant should be modified to reference account 1438 rather than account 1439 as the account was eliminated/consolidated in the FCC's USOA</li> <li>➤ §32.2000(g)(5) pertaining to Acquired Depreciable Plant should be modified to reference account 1438 (rather than account 1439) and account 6560 (rather than accounts 6561 and 6562 - depreciation expense) as these accounts were eliminated/consolidated in the FCC's USOA</li> </ul> |
| 32.2003         | Telecommunications Plant Under Construction        | <p>PSCW's USOA requires LEC to reclassify project cost to account 2006. Nonoperating Plant, if project has been suspended for six months or more; FCC's USOA allows LEC to retain project cost in this account as long as it is excluded from rate base and ratemaking considerations. <u>Ameritech Wisconsin comment:</u> <i>The reference to account 7370 (Special Charges) in §32.2003(c) should be changed to account 7300 as the FCC's USOA has eliminated/consolidated account 7370. AW also recommends that the PSCW adopt the FCC's rule to keep suspended project charges in account 2003 rather than transferring balances to account 2006 for the following reasons:</i></p> <ul style="list-style-type: none"> <li>➤ Balances in 2003 are not subject to depreciation</li> <li>➤ Suspended projects in account 2003 are rare when compared to the total number of active projects; i.e. funds subject to transfer are relatively immaterial</li> <li>➤ Carriers do not accrue AFUDC on suspended construction projects; i.e. the cost of construction does not continue to grow during the suspension period</li> </ul>   |

| Part 32 Section | Section Title                       | Comment  |
|-----------------|-------------------------------------|--|
| 32.2005         | Telecommunications Plant Adjustment | <p>FCC's USOA nets amortization amount in account 2005; FCC's USOA requires approval for disposal of amounts of \$100,000 where not acquired from an affiliated company; PSCW's USOA includes \$10,000 threshold. <u>Ameritech Wisconsin comment:</u></p> <p><b>§32.2005(b)(1) and (3) should be updated to reflect account 7300 (currently account 7370 – Special Charges) and account 6560 (currently account 6565 – Amortization Expense Other) per the FCC's new account structure. AW also recommends that the PSCW adopt the FCC's \$100,000 threshold for disposing of residual telecommunication plant adjustments, consistent with the FCC's rules and methodology.</b></p>   |
| 32.2007         | Goodwill                            | <p>Although the PSCW has not previously adopted this account, it did support the adoption in comments filed with the FCC. <u>Ameritech Wisconsin comment:</u> AW supports the adoption of the FCC's Goodwill account to recognize the value of an asset that cannot be assigned to another account. The value of goodwill should be amortized over the life of the asset as other non-operating income as prescribed in §32.2007 (a) and (b).</p>  |
| 32.2111         | Land                                | <p>The FCC's current USOA incorrectly references plant status account 2004 (<i>Under Construction-Long Term</i>) in §32.2111(g). Account 2004 was eliminated in the FCC's Part 32 in January 1998, and this section of the USOA is being modified to eliminate the reference to account 2004. AW recommends that the PSCW adopt the change to §32.2111(g) in the Wisconsin USOA. The reference to account 7540 in §32.2111(f) should be changed to account 7500 as the account has been eliminated/consolidated in the FCC's USOA.</p>   |
| 32.2123         | Office Equipment                    | <p>FCC's USOA eliminated sub-accounts for office support equipment and company communications equipment. <u>Ameritech Wisconsin comment:</u> Since individual items classified to this account are distinguishable for retirement, depreciation and continuing property record purposes within the carrier's subsidiary records, sub-accounts are no longer needed in account 2123.</p>  |
| 32.2212         | Digital Electronic Switching        | <p>PSCW requested subaccounts for packet and ATM (which represents a compilation of packets); FCC's USOA adopted subaccounts for circuit and packet; FCC did not adopt subsidiary records requirement for main distribution frame, line cards, central processing and features to assist in identification of traffic versus nontraffic sensitive costs, as requested by PSCW. <u>Ameritech Wisconsin comment:</u> Many of the items listed above are already considered retirement units by the carriers, and since items classified to account 2212 are typically included in an "actual cost by location" property record, the carrier's subsidiary records provide sufficient details for traffic sensitive studies. AW therefore does not recommend further CPR requirements or sub-accounting of §32.2212 in the Wisconsin USOA.</p> |

| Part 32 Section | Section Title        | Comment   |
|-----------------|----------------------|---|
| 32.2231         | <b>Radio Systems</b> | <p><i>Ameritech Wisconsin recommends that the PSCW adopt the FCC's consolidation of sub-accounts within account 2231. Furthermore, the subsidiary record requirements established in §32.2231(c)(2) can be eliminated, i.e. fully adopt the FCC's revisions to Part 32, §32.2231.</i></p>   |
| 32.2232         | Circuit Equipment    | <p>While FCC adopted subaccounts for electronic and optical, PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking unbundled network element (UNE) costs. <i>Ameritech Wisconsin comment: AW agrees with the comments of WSTA that TELRIC pricing of UNE products is based upon theoretical forward looking costs (i.e. unified to the carrier's actual investment). Historical embedded costs are not used as the basis for establishing UNE rates. Furthermore, disclosing product specific historical cost information could aid a competitor of a public utility, disclosure of which is prevented by Wisconsin Stat. §196.14.</i></p>  |
| 32.2310-32.2362 | Various              | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs. <i>Ameritech Wisconsin comment: AW agrees with the comments of WSTA that TELRIC pricing of UNE products is based upon theoretical forward looking costs (i.e. unified to the carrier's actual investment). Historical embedded costs are not used as the basis for establishing UNE rates. Furthermore, disclosing product specific historical cost information could aid a competitor of a public utility, disclosure of which is prevented by Wisconsin Stat. §196.14.</i></p>  |
| 32.2311         | Station Apparatus    | <p>PSCW USOA would include handicapped customer premises equipment offered under tariff by LECs (perhaps in account 2362); PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW. <i>Ameritech Wisconsin comment: Wisconsin USOA §32.2311(d) should be updated to reference account 2114 for Tools and Other Work Equipment (currently references account 2116 which will be eliminated /consolidated into 2114), and account 2220 for Operator Systems (account 2221 was previously eliminated by the FCC). §32.2311(f) should be modified per the FCC's revision to allow for periodic asset verifications rather than requiring annual inventories. AW considers periodic inventories to be a viable alternative for ensuring the accuracy of continuing property records while eliminating unnecessary administrative costs/burdens born by the carrier. Periodic inventories are considered to be a generally accepted accounting principle for ensuring the accuracy of investment records/balances.</i></p> |

| <b>Part 32 Section</b> | <b>Section Title</b>          | <b>Comment</b>   |
|------------------------|-------------------------------|--|
| 32.2410-32.2441        | Various                       | PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs. <u>Ameritech Wisconsin comment: AW agrees with the comments of WSTA that TELRIC pricing of UNE products is based upon theoretical forward looking costs (i.e. until to the carrier's actual investment). Historical embedded costs are not used as the basis for establishing UNE rates. Furthermore, disclosing product specific historical cost information could aid a competitor of a public utility, disclosure of which is prevented by Wisconsin Stat. §196.14.</u>  |
| 32.2424                | <b>Submarine Cable</b>        | <u>Ameritech Wisconsin recommends that the PSCW adopt the revisions to FCC Part §32.2424 to include Deep Sea Cable investment (formerly account 2425).</u>   |
| 32.2425                | <b>Deep Sea Cable</b>         | <u>Ameritech Wisconsin recommends that the PSCW adopt the FCC's elimination of account 2425.</u>   |
| 32.2690                | Intangibles                   | FCC's USOA nets amortization amount in account 2690. <u>Ameritech Wisconsin comment: Account 6564 (Amortization Expense – Intangible) has been eliminated and consolidated into account 6560. AW agrees with this consolidation of accounts and recommends that the PSCW modify Wisconsin USOA §32.2690(c) to reference account 6560 (currently references account 6564) for recording the associated amortization expense. Similarly, the reference to account 6728 in Wisconsin USOA §32.2690(g) should be updated to reference account 6720. The paragraphs should be aligned to the FCC's revised §32.2690.</u>  |
| 32.3000 & 4000 series  | Contra Assets and Liabilities | Sufficient detail (e.g., former accounts 3420, 3500, 4020, 4050, 4060, 4210, 4250, 4260, and 4270) must be available in the new USOA for the PSCW to continue to perform small telco equity thin and earnings calculations. <u>Ameritech Wisconsin comment: References to accounts in the Wisconsin USOA should be modified as follows:</u><br><ul style="list-style-type: none"> <li>➤ <u>Accounts 6561-6565 in §32.3100 through §32.3600 should be modified to reference account 6560. The FCC has consolidated accounts 6561-6565 into account 6560.</u></li> <li>➤ <u>Accounts 7360 and 7350 in §32.3300(b) and (c), respectively, should be modified to reference account 7300. The FCC has consolidated these accounts in account 7300.</u></li> <li>➤ <u>Additional references to the "7xxx" series of accounts in the Wisconsin USOA that have been eliminated/consolidated in the FCC's USOA should be modified to reflect the appropriate accounts, e.g. account 7160 eliminated/consolidated into account 7100 and account 7360 eliminated/consolidated into account 7300.</u></li> </ul> |

| Part 32 Section | Section Title   | Comment  |
|-----------------|---|--|
| <b>32.4000</b>  | <b>Current Accounts and Notes Payable</b>                     | <b><i>Due to the FCC's requirement to distinguish between affiliate and non-affiliate liabilities, to retain details regarding notes payable, etc., as stated in §32.400 (c) and (d), the carrier's subsidiary records will provide sufficient information to allow for earnings reviews without creating additional sub-accounts in the Wisconsin USOA. As such, accounts 4010, 4020 and 4030 can be removed from the Wisconsin USOA and consolidated into Account 4000, i.e. adopt the FCC's changes.</i></b>  |
| <b>32.4040</b>  | <b>Customer's Deposits</b>                                    | <b><i>The reference to account 4030 in the Wisconsin USOA §32.4040 (b) should be modified to reference account 4130 (Other current liabilities) as amended in the FCC's USOA.</i></b>  |
| 32.4070         | Income Taxes-Accrued  | PSCW's USOA requires subaccounts for federal and state income taxes. <b><u>Ameritech Wisconsin comment: The distinction between federal and state income taxes will be maintained in the carrier's subsidiary records as the monies are remitted to different taxing authorities, i.e. detailed record keeping by taxing jurisdiction is necessary.</u></b>  |
| <b>32.4110</b>  | <b>Net Current Deferred Non-Operating Income Taxes</b>        | <b><i>The reference to account 7450 in §32.4110 (c) should be changed to account 7400, and the reference to account 7640 in §32.4110 (f) should be changed to account 7600 per the revisions made to the FCC's USOA.</i></b>   |
| <b>32.4330</b>  | <b>Unamortized Non-Operating Investment Tax Credits - Net</b> | <b><i>Wisconsin USOA §32.4340 (a) and (b) should be updated to reference account 7400 (current reference is to account 7410 which has been eliminated/consolidated).</i></b>   |
| <b>32.4340</b>  | <b>Net Non-Current Deferred Operating Income Taxes</b>        | <b><i>Wisconsin USOA §32.4340(e) is identical to the FCC's USOA and requires subsidiary records for this account to distinguish between property and non-property related taxes. Wisconsin carriers have complied with this subsidiary record requirement in order to satisfy reporting requirements for Part 43 of the FCC's rules and regulations. Ameritech Wisconsin offers this comment as an example of the carrier's ability to meet subsidiary record reporting requirements without establishing unique sub-accounts in the Wisconsin USOA.</i></b> |
| <b>32.4341</b>  | <b>Net Deferred Tax Liability Adjustments</b>                 | <b><i>Ameritech Wisconsin suggests that the PSCW adopt the amendments to FCC USOA §32.4341 (a) and (b)(2).</i></b>   |
| <b>32.4350</b>  | <b>Net Non-Current Deferred Non-Operating Income Taxes</b>    | <b><i>Ameritech Wisconsin suggests that the PSCW:</i></b><br>► <b><i>remove the word "temporary" from Wisconsin USOA §32.4350(a) to be consistent with the FCC's rules and regulations</i></b><br>► <b><i>update Wisconsin USOA §32.4350(b) to reference account 7400 (current reference is to account 7450 which has been eliminated/consolidated)</i></b><br>► <b><i>update Wisconsin USOA §32.4350(e) to reference account 7600 (current reference is to account 7640 which has been eliminated/consolidated)</i></b>                                     |

| Part 32 Section | Section Title  | Comment   |
|-----------------|--|---|
| <b>32.4361</b>  | <b>Deferred Tax<br/>Regulatory<br/>Adjustments – Net</b> | <p><b>Ameritech Wisconsin suggests adopting the FCC's changes without modification.</b></p>   |
| <b>32.4540</b>  | <b>Other Capital</b>                                     | <p><b>Wisconsin USOA §32.4540 should be modified to reference account 1410 (currently references account 1401 which has been eliminated/consolidated).</b></p> <p>Paragraph (l) has not previously been adopted by the PSCW for LECs not subject to dual jurisdiction or not having an approved cost allocation manual; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW. <b>Ameritech Wisconsin comment: Modified account references and terminology should be adopted in the Wisconsin USOA:</b></p> <ul style="list-style-type: none"> <li>➤ §32.4900(c) should reference account 6620 (currently references account 6623 which has been eliminated/consolidated by FCC)</li> <li>➤ §32.4900(d) should reference account 4300 (currently references account 4360 which has been eliminated/consolidated by FCC)</li> <li>➤ §32.4900(e) should reference accounts 5060, 5105 and 5200 (currently references accounts 5069, 5129, 5169 and 5269 which have been eliminated/consolidated by FCC)</li> <li>➤ §32.4900(g)(2) should be modified to reference the six new account groupings used by the FCC in the revenue account structure (currently references five account groupings)</li> <li>➤ §32.4900(h) should reference accounts 5001 through 5060 for Local Network Services revenues (currently references accounts 5000 through 5069)</li> <li>➤ §32.4900(i)(1) should reference accounts 5081 through 5083 for Network Access revenues (currently references accounts 5080 through 5084)</li> </ul> |

| Part 32 Section | Section Title  | Comment  |
|-----------------|----------------|--|
| 32.5000 series  | Local Revenues | <p>PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, resale, and collocation revenues; FCC did not adopt; however, it did include some of these items in account 5200, Miscellaneous revenue. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE revenue account should contain subsidiary records for each UNE defined in the UNE Remand Order. <b>Ameritech Wisconsin comment: The FCC's revenue account assignments align revenues by function (e.g. basic area revenue, private line revenue, end user network access revenue, long distance message revenue, miscellaneous revenue, etc.) rather than by individual product, customer segment or USF support mechanism. This account structure has not impeded the FCC's ability to regulate interstate activities nor the PSCW's ability to monitor state USF programs, WI price regulation, or small telco rate reviews. Furthermore, sub-accounts have not been established/requested in the Wisconsin USOA for revenue summary accounts, such as Basic Area Revenue (account 5001), in order to differentiate between primary and additional residence access line revenues or small business (1-3 lines) and large business customer access line revenues. Yet the PSCW effectively monitors and regulates these revenues for the price-regulated utilities as the carriers produce this information from their billing records/systems as required by Wisconsin Stat. §196.196(1). Individual product or UNE element revenue need not be identified in the Wisconsin USOA or reported in the PSCW Annual Report to realize that competitors are effectively operating in an ILEC's service territory. The summary level revenue information coupled with access line and call/message volumes already available via the PSCW's Annual Report clearly reveal year-over-year competitive losses.</b></p> <p><b>Competitive information abounds within the FCC's ARMS reports, PSCW annual reports, periodic commission studies, analyst studies, and independent consultant studies. Trade publications, investor commentaries, newspapers and periodicals, to name a few, are publishing competitive data/trends regarding local phone service, long distance and broadband services on a daily basis. Furthermore, disclosing product specific revenue information could aid a competitor of a public utility, disclosure of which is prevented by Wisconsin Stat. §196.14. For these reasons, AW recommends that the PSCW fully adopt the FCC's modifications to the §32.5000 series accounts.</b></p> |

| Part 32 Section | Section Title              | Comment   |
|-----------------|----------------------------|---|
| 32.5081         | End User Revenue           | PSCW requested that SLC and non-SLC (e.g., USF assessments to end users) subaccounts be provided; the FCC did not adopt. <u>Ameritech Wisconsin comment:</u> <i>USF assessment revenue from end users, for example, is collected from other sources (e.g. the PSCW's USF data request for TEACH assessments) or is available in the carrier's billing records/systems. Additional sub-accounts in the Wisconsin USOA are therefore not recommended.</i>   |
| 32.5082         | Switched Access Revenue    | PSCW requested that flat-rate (PICC) and usage-based subaccounts be provided; the FCC did not adopt. <u>Ameritech Wisconsin comment:</u> <i>§32.5082(b) of the FCC rules requires subsidiary record information for account 5082. Flat rate and usage sensitive data is available via the carrier's billing records/systems. Additional sub-accounts in the Wisconsin USOA are therefore not recommended.</i>   |
| 32.5999         | General (Expense Accounts) | The PSCW USOA contains a requirement for maintaining accounting records underlying the expense matrix categories in such detail that the total of the amounts distributed and the distribution is readily available for audit and reporting purposes. <u>Ameritech Wisconsin comment:</u> <i>References to specific accounts in §32.5900 (a) through (g) should be updated to coincide with the FCC's USOA. AW also recommends that the PSCW adopt the FCC's elimination of the expense matrix (i.e. subsidiary record categories) in §32.5900(f) of the Wisconsin USOA. Carriers are capable of distinguishing between salaries, benefits, rents and other expenses in the expense accounts to comply with the Part 43 reporting requirements and labor rating requirements for clearance to other accounts.</i> |
| 32.6000 Series  |                            | <i>The Wisconsin USOA should be updated with the new account values when specific reference is made to another account within an account description. For example, §32.6124 references account 6724, which has been eliminated/consolidated in account 6720 in the FCC's USOA.</i>  |
| 32.6500 series  | Expenses                   | PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, purchased telecommunications service for resale, and collocation expenses; FCC did not adopt. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE expense account should contain subsidiary records for each UNE defined in the UNE Remand Order. <u>Ameritech Wisconsin comment:</u> <i>See comments for 32.2232 (assets) and 32.5000 (revenues) regarding product specific accounts and TELRIC pricing based upon theoretical forward looking costs.</i>   |

| Part 32 Section | Section Title                         | Comment  |
|-----------------|---------------------------------------|--|
| 32.6560         | Depreciation and amortization expense | <p>PSCW requested retention of former accounts 6561-6565; result of FCC's non-adoption is commingling of various types of depreciation and amortization expense amounts.</p> <p><b><u>Ameritech Wisconsin comment:</u></b> <i>Annual depreciation and amortization expense can be determined via the change in the depreciation reserve accounts (3100-3410). Carriers will be able to complete the Annual Report depreciation schedules (pages 26-29) from the subsidiary ledger processes utilized to calculate depreciation and amortization in accordance with the Wisconsin depreciation rates established by the PSCW.</i></p>   |
| 32.6610-32.6620 | Marketing-Services                    | <p>The PSCW requested that existing accounts 6611, 6612, 6613 and 6623 and the retail portion of account 6724, Information Management, be combined into a new account titled Retail Services; the PSCW also requested that existing accounts 6621 and 6622 and the wholesale portion of account 6724 be combined into a new account titled Wholesale Services. The FCC has established subaccounts for wholesale and retail in account 6620, Services, for Class A LECs except mid-sized LECs. <b><u>Ameritech Wisconsin comment:</u></b> <i>Cost studies would be a more appropriate method for reviewing retail expenses. Requiring carriers to record or allocate actual customer support and information management expenses to a retail expense summary account would be difficult and inconsistent at best between the ILECs. The resulting account balance may be of little value to the PSCW when attempting to compare carrier costs to resale rates.</i></p> |

05-US-113

verizon

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Ms. Lynda Dorr, Secretary to the Commission  
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PUBLIC SERVICE COMMISSION OF WISCONSIN  
REGISTRATION SECTION

In the Matter of Prescribing a Uniform System of Accounts  
For Class A and Class B Telephone Utilities

Dear Ms. Dorr,

As invited by the Notice of Investigation in the referenced docket dated August 19, 2002, attached are an original and fifteen (15) copies of the Comments of Verizon North Inc.

Please contact me if you have questions or need further information relating to this matter. In my absence, please contact Paul Verhoeven of my staff at (608) 837-1771.

Very truly yours,

Daniel W. Matson

C: Kevin Klingbeil – PSCW

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**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

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**In the Matter of Prescribing a Uniform System of Accounts )  
For Class A and Class B Telephone Utilities ) Docket 05-US-113**

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**COMMENTS OF VERIZON NORTH INC.**

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Pursuant to the August 19, 2002, Notice of the Public Service Commission of Wisconsin (“Commission”), Verizon North Inc. (“Verizon”) provides the following comments on whether changes should be made to the Uniform System of Accounts (“USOA”) for Class A and Class B telephone utilities as a result of a Federal Communications Commission (“FCC”) order released November 5, 2001, in CC docket Nos. 00-199, 97-212, and 80-286 (“FCC Order”). The FCC’s changes to Part 32 of its rules will generally be effective January 1, 2003, for incumbent local exchange carriers (“ILECs”). Specifically, the Commission seeks specific comments, including suggested language for the USOA, concerning the following:

1. The Phase 2 Further Comments of the Commission filed with the FCC on July 12, 2001, in CC docket No. 00-199 (“Further Comments”).
2. Whether the Commission should adopt 47 C.F.R. 32.27, Transactions with Affiliates.
3. What consideration, if any, the Commission should grant ILECs subject to dual jurisdiction of the FCC and this Commission.
4. Commission staff analysis prepared for discussion purposes on July 24, 2002.

**Item 1. The Phase 2 Further Comments of the Commission Filed With the FCC on July 12, 2001, in CC docket No. 00-199 and Item 4., Commission Staff Analysis Prepared for Discussion Purposes on July 24, 2002.**

Items 1 and 4 will be addressed in detail in Attachment A, however the most troubling and burdensome of Staff's proposed changes are addressed in more detail below.

**Accounting System Requirements**

In reviewing the Commission Staff's ("Staff") comparison of the Commission's current USOA with the FCC's Part 32 USOA that will be effective January 1, 2003, it is apparent that Staff wishes to retain some of the information that would be eliminated as a result of the FCC Order. In addition, Staff is proposing to add some additional requirements. However, the Staff should not impose specific methods for an accounting system to capture the information required. Not all companies have the same systems, and there may be more efficient ways to meet the information requirement. Instead of mandating how incumbent local exchange carriers ("ILEC") should maintain this additional information in their accounting systems, the Commission should simply indicate what additional information is required and why it is required. This will allow ILECs to determine the most efficient method to capture the information, whether it is through a main account, subaccount or subsidiary record. In addition, this will also allow multi-state ILECs such as Verizon to meet differing state requirements more easily. Verizon urges the PSCW to only require what is absolutely necessary, thus avoiding the burden and cost of maintaining two accounting systems.

**Studies and Cost Allocation Processes Should Not be Part of an Accounting System**

In the Commission's Further Comments, the Commission proposed a number of changes to the USOA for further consideration by the FCC. The changes the Commission suggested to the FCC are nothing more than cost allocations that are extensions of the jurisdictional separations process. (See Attachment A, accounts 32.2212, 2232, 2310-2362, 2410-2441, 6212, 6232, 6310-6362, 6410-6441 and 6500 series.) To implement the changes the Commission suggests would require a revival of studies that identify loop vs. interoffice investment performed in jurisdictional separations. These studies were frozen by the FCC order released May 22, 2001 in CC docket No. 80-286 and are no longer being conducted. New studies would also be required to identify traffic vs. non-traffic. Verizon strongly disagrees with any attempt by the Commission to move studies and cost allocation processes into the accounting system.

Splitting Accounts Between Retail and Wholesale

Another requirement that Verizon requests the Commission not implement is the proposed splitting of various expense accounts into wholesale and retail accounts. To accomplish such a wholesale/retail split would require studies to be conducted, costs to be allocated and the allocation results to be journalized. Normally cost allocations occur after costs are booked, and results of the allocation are not journalized. These proposed changes parallel what the FCC is attempting to accomplish; and the purpose of such a split is to assist states in developing UNE rates. However, in reality, such accounting information would not be useful at all. At the point in time a UNE study would actually be done, it would not be based on outdated accounting statistics, it would use the most

current, forward-looking data available. This particular issue is so troublesome that the industry has petitioned the FCC to reconsider this one accounting item.

Furthermore, the Commission's proposal to combine various expense accounts into retail accounts incorrectly assumes that accounts 32.6610 and 32.6623 are strictly retail. Product Management costs are resident in account 32.6610 and product managers must manage wholesale operations. The costs in account 32.6623 includes more than costs to service retail end users. It also includes business office costs to service competitive local exchange carriers ("CLEC"), as well as CLEC billing and collection costs. These are valid wholesale costs.

#### Changes From FCC Biennial Review Order

Verizon also requests that the Commission implement the changes that were adopted earlier by the FCC in its Phase 1 Biennial Review order on March 8, 2000. These changes include the elimination of the expense matrix requirement, consolidation of special purpose vehicles, garage work equipment and other work equipment, and a \$100,000 (instead of \$10,000) threshold for account 32.2005, Telecommunications Plant Adjustment. Since Verizon maintains the above information in subsidiary records, implementing these changes that were previously adopted by the FCC would save the expense and time to comply with the Commission requirement.

#### Synchronization of Changes

As the Commission determines whether changes should be made to the USOA, Verizon stands ready to assist the Commission in completing a comprehensive review of any changes. Such a comprehensive review would ensure the synchronization of any

changes throughout the entire USOA, thus eliminating any confusion and errors in its application.

**Item 2. Whether the Commission Should Adopt 47 C.F.R. 32.27, Transactions With Affiliates.**

**Commission Rules Should Be Consistent With FCC Rules**

Item 2 questions whether the Commission should adopt affiliate pricing rules that are different from the FCC's Part 32.27 for transactions between and among affiliates. The Commission is also considering the creation of sub-accounts to identify affiliate versus nonaffiliated amounts. The Commission should not adopt these distinctions. Instead, the Commission should adopt the FCC's requirements for affiliated interest transactions and allocation of costs in 47 C.F.R. Part 32.27 for all telecommunications utilities.

Consistency with the FCC's rules will result in lower costs and more streamlined regulation. For example, to the extent that the Commission deviates from the FCC's USOA, Verizon will have to identify, quantify and record the differences for each transaction subject to the different rules. The incremental costs associated with these additional accounts and functions would need to be directly assigned to the Wisconsin jurisdiction. Moreover, considerable information associated with affiliate transactions is already readily available from a host of sources. This information is generated with the intent of monitoring transactions between and among affiliates. To use USOA sub-accounts to track these same relationships would not only be redundant, it would be costly.

**Consistency With FCC Affiliate Rules Is Beneficial**

In addition, there is no public benefit that would be served by introducing affiliate/unaffiliated sub-accounts into the USOA or, for that matter, by introducing

affiliate pricing rules that are different from the FCC's. What is clear is that deviating from the FCC's rules will decrease the efficiency of telecommunications utilities accounting operations, thus increasing costs. Conversely, using the identical set of affiliate transaction rules will result in more streamlined regulation and lower cost. Specifically, the Commission can gain efficiency by being able to more fully rely on the controls and processes that are already in place under Part 64 of the FCC rules. These include the annual preparation of the Cost Allocation Manual ("CAM") and its review by an independent audit firm. In addition, this audit firm must biennially attest that the information in the CAM is compliant with certain FCC orders and rules. The FCC staff also reviews the CAM and the audit work papers. The CAM document, itself, is available for review by competitors or other interested parties. The CAM currently details the affiliate transactions, including a description of the services provided or received, the affiliate providing or receiving them, the pricing methodology used and the frequency of the services.

#### ARMIS And Other Federal Reports

The FCC has established ARMIS Report 43-02, Tables I-2 and B-4 ("ARMIS") which also addresses affiliate matters. These tables display data regarding local operating company affiliate purchases of services and assets from, and the sales of services and assets to, non-regulated affiliates. For instance, the ARMIS 43-02, Table I-2 reports services and related activities between each local operating company and each non-regulated affiliate, for all transactions that exceed \$100,000 (on an annual cumulative basis) for the report year. The ARMIS I-2 Table displays the total amount of all transactions between each regulated and non-regulated entity.

To satisfy its obligations under §272(b)(5) of the Telecommunications Act of 1996, Verizon posts summaries of transactions between its local operating companies and their Long Distance Affiliates on the Internet.<sup>1</sup> These contract-posting requirements are complex. They require a minimum of 13 data entries to be posted for each contract (including rates, terms and conditions), and frequently many more (even in excess of 100 items for a single contract). Like the CAM, Verizon's compliance with §272 obligations is subject to biennial audit.

#### Existing Wisconsin Affiliate Oversight

Wisconsin, too, already has controls for monitoring affiliate transactions. Under Wisconsin statute 196.52, Verizon files every affiliate contract or a verified summary of any unwritten contract with the Commission. Annually, Verizon submits the Telecommunications Utility Report that contains the schedule "Affiliate Interest Transactions." This schedule provides a summary of transactions under established affiliate interest contracts. Among other things, the summary includes the name of the affiliate, the basis of pricing and dollar amounts. The annual report also contains the schedule "Affiliate Assets and Liabilities" that reports activity for certain affiliate accounts. The contract filings and annual reports allow the Wisconsin Commission to monitor virtually every affiliate transaction entered into by Verizon. The Commission already has more than sufficient information to monitor transactions between and among affiliates, and there is no need for these redundant requirements.

#### Specific FCC Rules

Regarding specific affiliate interest rules, the Commission should adopt the FCC's prevailing price rule. With the adoption of the CC Docket No. 96-150 order (as

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<sup>1</sup> CC Docket 96-150, ¶122.

modified by the CC Docket No. 00-199 order adopted October 11, 2001), the FCC established a measurable threshold that allows a carrier or affiliate to use prevailing price. The rule requires that more than 25% of a product or service be sold to unaffiliated customers in order for that product or service to qualify for prevailing price treatment. This significant threshold provides protection from any possible price abuse resulting from limited sales to third parties. Significant sales to third parties by a carrier or affiliate obviate the need for a study to demonstrate market price since the prevailing price represents the market price. Utilizing a prevailing market price will allow telecommunications utilities to avoid the cost of a market study, thus increasing their efficiency.

In addition, the Commission should adopt the FCC's service company exemption that adequately guards against cross-subsidy. The FCC's exemption is an efficient method of pricing service company services while still providing protection from cross-subsidies. 47C.F.R. Part 32.27 (c) exempts non-regulated affiliates from conducting market studies and permits them to price services at fully distributed cost ("FDC") if they meet the definition of a "service company". The definition of a service company is an affiliate that exists solely to provide services to members of the corporate family. In other words, a service company as defined by the FCC rule is operated as a "cost center" not a "profit center". A service company simply passes its costs on to the affiliates it serves, usually with the goal of controlling costs and achieving the greatest efficiency possible. The FCC's approach is reasonable and effective.

#### Benefits Of Consistent Standards

Consistency between the FCC and Wisconsin rules would be much easier and less costly to administer than the two different standards. In its December 24, 1996 Order in CC Docket No. 96-150 (¶148), the FCC stated that “(r)equiring carriers to perform fair market valuations for such transactions would increase the cost to ratepayers while providing limited benefit.” The FCC recognized that these service companies allow the corporation to gain the economies of scale and scope, which in turn are ultimately transferred to the carriers through the valuation of the services at FDC. Consequently, it was unlikely that market studies would result in identifying many services that could be provisioned at costs lower than those provided by the service company – thus the limited benefit. Furthermore, many of the services, such as corporate governance and strategic planning, are proprietary to the corporation and are tailored to serve its unique needs. Consequently, comparable market data is virtually impossible to obtain.

#### Market Study Threshold

Also, the Commission should establish a market study threshold for services and assets using the FCC’s threshold of \$500,000. In CC Docket No. 99-253 and as codified in Part 32.27(c), the FCC increased its market study threshold for services from \$100,000 to \$500,000 referring to the existing threshold as a “de minimis exception.” The FCC further added that “(b)ased on our experience enforcing affiliate transaction rules...(w)e find that below this threshold the administrative cost and effort of making such a determination will outweigh the regulatory benefits.” For similar reasons, the FCC eliminated the requirement that carriers perform fair market comparisons for assets when the value of the asset is less than \$500,000. Order in Docket No. 00-199(implemented January 1, 2002).

The FCC does not require market studies unless the annual sales of a service or asset are valued at or above \$500,000 per year.<sup>2</sup> Implementing the FCC's \$500,000 threshold best reflects the FCC's determination that "based on [its] experience enforcing affiliate transaction rules...[,] below this threshold the administrative cost and effort of making such a determination [outweighs] the regulatory benefit."<sup>3</sup> A similar streamlining benefit would be gained as described above in the case of the service company exemption.

#### Floor and Ceiling Requirements

Finally, the Commission should establish a floor and ceiling for recording transactions between the regulated carrier and its non-regulated affiliates. In its CC Docket No. 00-199, the FCC gave carriers flexibility in valuing transactions by allowing the higher or lower of cost or market to operate as either a floor or ceiling, depending on the direction of the transaction. In instances where the cost of the service or asset must be compared to market, this pricing flexibility allows the regulated carrier to either pay less or charge more to the non-regulated affiliate for the service or asset.

#### Financing

As a final comment regarding transactions between affiliates, it should be noted that Verizon local operating telephone companies do not guarantee loans for non-regulated affiliates. Any financing by the Verizon local operating telephone companies is separate from the financing for Verizon non-regulated affiliates. Verizon local operating telephone companies do not and will not co-sign a contract or any other instrument that

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<sup>2</sup> CC Docket No. 99-253 and CC Docket No. 00-199.

<sup>3</sup> In the Matter of Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, Report and Order 00-78 (March 8, 2000) ¶ 19.

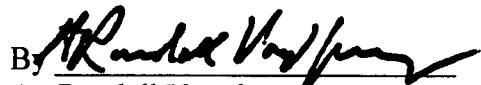
would allow a non-regulated affiliate to obtain credit granting recourse to the local operating telephone companies' assets.

**Item 3. What Consideration, if any, The Commission Should Grant ILECs Subject to Dual Jurisdiction of the FCC and This Commission.**

All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. Verizon recommends the Commission not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the Commission will create two sets of financial records, increasing costs for the ILECs. Adoption of Part 32, as proposed by Verizon, does not limit the Commission's ability to carry out its regulatory responsibilities and at the same time does not impose additional costs or requirements on Wisconsin ILECs' compliance with the Commission's USOA.

Respectfully submitted,

VERIZON NORTH INC.

By   
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Date: 9/20/02 Its Attorney

**Part 32 – Uniform System of Accounts (USOA) for Class A and Class B Telephone Utilities**

Docket 05-US-113

Commission Staff Comparison of the Public Service Commission of Wisconsin's (PSCW) Current USOA (With Selected Additional Accounts Suggested in Comments Filed by the PSCW) and the Federal Communications Commission's (FCC)

Part 32 USOA to be Effective January 1, 2003 – Prepared for Discussion Purposes on July 24, 2002

| Part 32 Section | Section Title               | Comment  |
|-----------------|-----------------------------|--|
| 32.11           | Classification of companies | FCC's Class A and Class B classification is based on revenues, whereas PSCW's classification is access-line based.<br><b>Verizon Response:</b><br>Verizon has no issue with the continued use of this classification by the PSCW.  |
| 32.13           | Accounts-general            | The FCC eliminated paragraph (a)(1) and renumbered remaining paragraphs; FCC's renumbered paragraph (a)(2) allows local exchange carriers (LECs) to establish temporary or experimental accounts without prior notice, whereas the PSCW's requires notice of nature and purpose within 30 days.<br><b>Verizon Response:</b><br>Verizon has no issue with this for external reporting purposes. However, Verizon recommends that temporary use be allowed internally as needed. |

| Part 32 Section | Section Title      | Comment  |
|-----------------|--------------------|--|
| 32.14           | Regulated accounts | <p>PSCW's paragraph (c) notes that investment, expenses and other costs associated with joint provision of regulated and other products and services should be initially accounted for as regulated; PSCW's paragraph (e) also references regulated accounts for joint participation or apportionment between two or more telephone companies; unclear as to whether this varies from FCC's requirements; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>In the view of the FCC, the regulated accounts are all accounts except 1406 and 7990. The Part 64 process takes dollars in selected regulated accounts and separates those into regulated and nonregulated groupings. But the accounts themselves are considered regulated accounts.</p> <p>Only Accounts 1406 and 7990 are considered nonregulated accounts. These two accounts are to be used when <i>nothing</i> is shared in the provision of the nonregulated service – in other words, entirely separate people, investment, etc., are used in the provision of the nonregulated service(s). (See FCC 32.23) When this occurs, the nonregulated service(s) have a separate set of books different from the regulated set of books. The result of the separate nonregulated set of books is summarized and reflected in Accounts 1406 and 7990.</p> <p>Verizon does not have any nonregulated activities in Wisconsin that require a separate set of books; therefore nothing is booked to Accounts 1406 and 7990.</p> <p>Regarding apportionment between two or more telephone companies Verizon provides the following clarification:<br/>FCC rules do not address the billing of costs between two or more telephone companies. FCC affiliate transaction rules only cover transactions between nonregulated and regulated companies.</p> |

| Part 32 Section | Section Title                            | Comment  |
|-----------------|--|--|
| 32.16           | Changes in Accounting Standards          | <p>PSCW's USOA requires revenue requirement study or analysis with notification of intent to adopt an accounting standards change; PSCW's USOA also includes paragraph (c) which specifies that LEC shall notify the PSCW of matters of significance, defined both qualitatively and quantitatively.</p> <p><b>Verizon Response:</b><br/>Verizon is under price regulation. A revenue requirement study is not necessary.</p>  |
| 32.17           | Interpretation of accounts               | <p>PSCW's USOA incorporates "matters of significance" definition contained in PSCW § 32.16.</p> <p><b>Verizon Response:</b><br/>Verizon concurs with this.</p>   |
| 32.19           | Address for reports and correspondence   | <p>PSCW's USOA does not contain this item.</p>   |
| 32.22           | Comprehensive Interperiod Tax Allocation | <p>PSCW's USOA contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for tax differentials that are phased in.</p> <p><b>Verizon Response:</b><br/>Verizon concurs with this.</p>   |
| 32.23           | Nonregulated activities                  | <p>PSCW's USOA references its § 32.14, as well as accounts 1406, 7130, and 7990; PSCW's USOA contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW; FCC's USOA references accounts 1406, 5280, and 7990, as well as § 32.27, Transactions with Affiliates.</p> <p><b>Verizon Response:</b><br/>Verizon has no activity in Accounts 1406, 7130, or 7990. FCC's Account 5280 is to be used to record nonregulated revenue when the nonregulated activities are journalized in the regulated accounts. This happens when there are joint and common use of assets and resources in the provision of regulated and nonregulated products and services.</p> |
| 32.24           | Compensated Absences                     | <p>PSCW's USOA requires approval by the PSCW to record entry.</p> <p><b>Verizon Response:</b><br/>PSCW should adopt the usage of accounts 4130 and 1438 and the FCC's revised language in 32.24(b).</p>  |

| Part 32 Section | Section Title                            | Comment  |
|-----------------|--|--|
| 32.25           | Unusual Items and contingent liabilities | PSCW's USOA requires prior PSCW approval; dollar thresholds for corrections specified.   |
| 32.27           | Transactions with Affiliates             | <p><b>Verizon Response:</b><br/>           Verizon believes the PSCW should follow Generally Accepted Accounting Principles (GAAP). There should not be a need for pre-approval.</p> <p>PSCW did not previously adopt FCC's § 32.27 because of jurisdiction provided by Wis. Stat. § 196.52; tariff, prevailing price, higher of cost or fair market value (HOCOM), or lower of cost or fair market value (LOCOM) options provided in FCC's USOA; floor and ceiling encompassed in FCC's USOA; \$500,000 threshold for market studies in FCC's USOA; FCC's prevailing price threshold of greater than 25 percent of sales to third parties, except for section 272 activity; FCC's paragraph (f) exempts LECs that settle interstate activity on average schedule basis; PSCW addressed HOCOM in Chibardun Telephone Cooperative's 1090-TI-100 order; PSCW addressed LOCOM and rejected centralized services exception in CenturyTel-Kendall's 2815-TR-103 2001 rate order.</p> <p><b>Verizon Response:</b><br/>           See Verizon's Comments.</p> |
| 32.101          | Structure of the Balance Sheet Accounts  | PSCW has not previously adopted account 2007, Goodwill.  |
| 32.102          | Nonregulated investments                 | <p>FCC's USOA references §§ 32.14 and 32.23 for joint or common use of assets or resources in provision of both regulated and nonregulated products and services; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b><br/>           FCC limits the definition in Section 32.102 to those investments that do not involve common use of assets or resources. Verizon has nothing that falls into this criteria in Wisconsin.</p>   |

| Part 32 Section       | Section Title   | Comment  |
|-----------------------|---|--|
| 32.103                | Balance Sheet Accounts for Other than Regulated-Fixed Assets to be Maintained | See respective accounts below for PSCW's comments filed with FCC in Comprehensive Accounting Review proceeding.  |
| 32.1000 & 2000 series | Assets  | Sufficient detail (e.g., account 1402, Investment in RTB Class B Stock amount) must be available in the new USOA for the PSCW to continue to perform small telco equity thin and earnings calculations.  |
| 32.1170               | Receivables   | FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable from other receivables, as suggested by the PSCW.                                    |
|                       |   | <b>Verizon Response:</b><br>Verizon does not want to be required to separately identify telephone receivables from other receivables, however this information is available. (Telephone previously was Account 1180 and Other previously was Account 1190) |
| 32.1171               | Allowance for doubtful accounts   | FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable allowance from other receivables allowance, as suggested by the PSCW.                |
|                       |   | <b>Verizon Response:</b><br>Verizon does not want to be required to separately identify telephone allowance from other allowance, however, this information is available. (Telephone previously was Account 1181 and Other previously was Account 1191)    |

| Part 32 Section | Section Title            | Comment  |
|-----------------|--------------------------|--|
| 32.1220         | Inventories              | <p>FCC's USOA states that items solely related to a nonregulated activity should be accounted for in a different account; the PSCW's USOA specifies that account 1406 should be used for materials and supplies dedicated to nonregulated, with the exception of items held for sale or lease; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>FCC requires use of Account 1406 when <i>both</i> investment and resources are not shared. Inventory items that can be directly assigned to nonregulated are recorded in Account 1220. Verizon wants to follow the FCC accounting and will be sure that inventory items solely used for nonregulated will be identified.</p> |
| 32.1406         | Nonregulated investments | <p>FCC's USOA eliminated subaccounts for permanent investment, depreciation reserve, and inventory; PSCW's USOA also prescribes accounting for LECs not subject to dual jurisdiction; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>Verizon concurs.</p>  |
| 32.1410         | Other noncurrent assets  | <p>PSCW had requested that affiliated portion of investments in affiliates and affiliated portion of sinking funds be identified; unclear if FCC's subsidiary record requirement for advances to affiliates covers this.</p> <p><b>Verizon Response:</b></p> <p>Verizon will continue to maintain records to identify affiliates vs. nonaffiliates</p>   |

| Part 32 Section | Section Title                                      | Comment   |
|-----------------|--|---|
| 32.2000         | Instructions for telecommunications plant accounts | <p>PSCW has not yet adopted consolidation of accounts 2114 through 2116 into 2114, Tools and other work equipment; PSCW's USOA provides that Class B LECs may elect to continue to capitalize items costing between \$500 to \$2,000 provided that verifiable inventory records are maintained; FCC's USOA provides that cost of tools and test equipment located in the central office, classifiable to accounts 2210-2232 costing \$2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts; PSCW has not yet adopted account 2007, Goodwill; PSCW requires filing and approval of journal entries for acquisitions of plant where consideration is \$100,000 or greater; is calculation of a theoretical reserve for the acquired plant required (per § 32.2005 "reserve requirements" language)?; PSCW's USOA mentions Wis. Stat. § 196.09(1) as it concerns depreciation charges; perhaps reference should be changed to § 196.09(9) due to language changes in 1993 Wisconsin Act 496.</p> <p><b>Verizon Response:</b><br/>See individual responses below.</p> |
| 32.2002         | Property Held for Future Telecommunications Use    | <p>PSCW's USOA requires LEC to request approval to retain property in this account for longer than two years; FCC's USOA allows LEC to retain property in this account for longer than two years as long as it is excluded from rate base and ratemaking considerations.</p> <p><b>Verizon Response:</b><br/>Verizon has no activity in Account 2002. PSCW could avoid having to process an approval request if carriers are required to keep separate records for dollars remaining in Account 2002 beyond 2 years.</p>  |

| Part 32 Section | Section Title                               | Comment  |
|-----------------|---|--|
| 32.2003         | Telecommunications Plant Under Construction | <p>PSCW's USOA requires LEC to reclassify project cost to account 2006, Nonoperating Plant, if project has been suspended for six months or more; FCC's USOA allows LEC to retain project cost in this account as long as it is excluded from rate base and ratemaking considerations.</p> <p><b>Verizon Response:</b><br/>PSCW should consider similar treatment here as with 32.2002. Rather than mandate suspended projects be transferred to Account 2006, carriers should have the option of either moving balances to Account 2006 or separately identifying suspended projects when retained in Account 2003.</p> |
| 32.2005         | Telecommunications Plant Adjustment         | <p>FCC's USOA nets amortization amount in account 2005; FCC's USOA requires approval for disposal of amounts of \$100,000 where not acquired from an affiliated company; PSCW's USOA includes \$10,000 threshold.</p> <p><b>Verizon Response:</b><br/>PSCW should raise the \$10,000 threshold to the FCC \$100,000 threshold. The FCC established the \$100,000 in 1986 when Part 32 came into effect. (See FCC 86-221, CC Docket 78-196, released 5/15/86).</p>  |
| 32.2007         | Goodwill                                    | <p>Although the PSCW has not previously adopted this account, it did support the adoption in comments filed with the FCC.</p> <p><b>Verizon Response:</b><br/>Verizon concurs with the PSCW's adoption. Verizon does not have any activity in the FCC Goodwill account.</p>  |
| 32.2110-32.2690 | All plant accounts                          | <p>In past USOA orders, the PSCW has required Class B LECs to follow the same accounts as Class A LECs.</p>  |
| 32.2114         | Tools and other work equipment              | <p>The PSCW has not previously adopted the consolidation of former accounts 2114 through 2116 into new account 2114.</p> <p><b>Verizon Response:</b><br/>PSCW should consolidate 2114 through 2116.</p>  |
| 32.2123         | Office Equipment                            | <p>FCC's USOA eliminated subaccounts for office support equipment and company communications equipment.</p> <p><b>Verizon Response:</b><br/>PSCW should adopt the FCC elimination of sub accounts.</p>   |

| Part 32 Section | Section Title                | Comment  |
|-----------------|------------------------------|--|
| 32.2212         | Digital Electronic Switching | PSCW requested subaccounts for packet and ATM (which represents a compilation of packets); FCC's USOA adopted subaccounts for circuit and packet; FCC did not adopt subsidiary records requirement for main distribution frame, line cards, central processing and features to assist in identification of traffic versus nontraffic sensitive costs, as requested by PSCW.  |
|                 |                              | <b>Verizon Response:</b><br>Traffic vs. nontraffic is not something that can be identified by an account. This breakdown would require a costly special study. Verizon is not sure why this breakdown is necessary. For FCC purposes, costs are no longer linked to price-cap rates, so this breakdown would not be meaningful. Verizon is also price regulated.   |
| 32.2232         | Circuit Equipment            | While FCC adopted subaccounts for electronic and optical, PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking unbundled network element (UNE) costs.   |
|                 |                              | <b>Verizon Response:</b><br>Loop vs. interoffice is not something that can be identified by an account. The same equipment can be jointly used for both loop and interoffice facilities. A piece of equipment can only be put into one account. To assign a dollar amount to loop vs. interoffice would require costly special studies. Such studies were previously performed in the jurisdictional separations process after amounts were booked; however those studies have since been frozen by the FCC. |
| 32.2310-32.2362 | Various                      | PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.   |
|                 |                              | <b>Verizon Response:</b><br>Loop vs. interoffice is not something that can be identified by an account. The same equipment can be jointly used for both loop and interoffice facilities. A piece of equipment can only be put into one account. To assign a dollar amount to loop vs. interoffice requires costly special studies. Such studies were previously performed in the jurisdictional separations process after amounts were booked; however those studies have since been frozen by the FCC.      |

| Part 32 Section | Section Title                  | Comment  |
|-----------------|--------------------------------|--|
| 32.2311         | Station Apparatus              | <p>PSCW USOA would include handicapped customer premises equipment offered under tariff by LECs (perhaps in account 2362); PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>Verizon concurs. Verizon currently does not have any investment in Account 2311. Handicapped customer premises equipment is recorded in Account 2362. FCC rules require "...specialized communications equipment provided to meet the needs of the disabled..." be recorded in Account 2362.</p>     |
| 32.2321         | Customer Premises Wiring       | <p>PSCW USOA notes that all customer premises wiring is deregulated and should be classified in other accounts; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>Customer owned deregulated inside wire would not be in any Verizon investment account because deregulated inside wire is not owned by Verizon. Deregulated inside wire is owned by the customer. Any work that Verizon would perform on customer owned deregulated inside wire would be considered expense.</p> |
| 32.2341         | Large Private Branch Exchanges | <p>PSCW USOA would include handicapped customer premises equipment offered under tariff by LECs (perhaps in account 2362); PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>Verizon does not have any investment in Account 2341. Handicapped customer premises equipment is recorded in Account 2362. FCC rules require "...specialized communications equipment provided to meet the needs of the disabled..." be recorded in Account 2362.</p>                                |

| Part 32 Section       | Section Title                     | Comment  |
|-----------------------|-----------------------------------|--|
| 32.2410-32.2441       | Various                           | PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.   |
|                       |                                   | <b>Verizon Response:</b><br>Please see comments above on 32.2232   |
| 32.2682               | Leasehold Improvements            | FCC's USOA nets amortization amount in account 2682.   |
|                       |                                   | <b>Verizon Response:</b><br>Verizon will continue to maintain amortization separately.   |
| 32.2690               | Intangibles                       | FCC's USOA nets amortization amount in account 2690.   |
|                       |                                   | <b>Verizon Response:</b><br>Verizon will continue to maintain amortization separately.   |
| 32.3400               | Accumulated amortization-tangible | While the FCC's March 8, 2002 Order on Reconsideration added back this account for Class B LECs, it is unclear whether account 3420, Accumulated Amortization-Leasehold Improvements, is also being added back for Class B LECs since the description for account 3400 references both accounts 3410 and 3420. |
|                       |                                   | <b>Verizon Response:</b><br>As a Class A company, Verizon will maintain 3410 and 3420.   |
| 32.3000 & 4000 series | Contra Assets and Liabilities     | Sufficient detail (e.g., former accounts 3420, 3500, 4020, 4050, 4060, 4210, 4250, 4260, and 4270) must be available in the new USOA for the PSCW to continue to perform small telco equity thin and earnings calculations.  |
|                       |                                   | PSCW requested that current maturities remain isolated, although they could be combined into a single distinct account; the FCC has combined these two accounts into account 4130, Other current liabilities, along with other items.  |
|                       |                                   | <b>Verizon Response:</b><br>Verizon recommends the PSCW adopt the FCC guidelines for account 4130.   |
| 32.4070               | Income Taxes-Accrued              | PSCW's USOA requires subaccounts for federal and state income taxes.   |
|                       |                                   | The PSCW requested that account 4260, Advances from affiliated companies, remain isolated; it is unclear whether the subsidiary records requirement set forth in paragraph (b) of account 4200 will meet this request.   |
|                       |                                   | <b>Verizon Response:</b><br>Verizon will continue to maintain records to identify affiliates vs. nonaffiliates.  |

| <b>Part 32 Section</b> | <b>Section Title</b>  | <b>Comment</b>  |
|------------------------|---|---|
| 32.4511                | Members Equity  | Not adopted by the FCC; pending request by the 11 cooperatives before the PSCW to establish this account.   |
| 32.4520                | Additional Paid-in Capital                                  | The PSCW's 2001 order in 1090-TI-100 directed Chibardun Telephone Cooperative to reclassify its patronage capital from account 4550, Retained Earnings, to account 4520.  |
| 32.4550                | Retained Earnings   | Pending request by the 11 cooperatives before the PSCW to establish subaccounts 4550.1, Retained Earnings-Patronage Capital Unassigned, and 4550.2, Retained Earnings-Patronage Capital Assigned.   |
| 32.4999                | General-Purpose of Revenue Accounts (Nonregulated Revenues) | Paragraph (l) has not been previously adopted by the PSCW for LECs not subject to dual jurisdiction or not having an approved cost allocation manual; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.   |
| 32.5000 series         | Local Revenues  | PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, resale, and collocation revenues; FCC did not adopt; however, it did include some of these items in account 5200, Miscellaneous revenue. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE revenue account should contain subsidiary records for each UNE defined in the UNE Demand Order.<br><br><b>Verizon Response:</b><br>PSCW should allow carriers to determine how best to identify information rather than prescribe mandated subaccounts. For example, if PSCW needs to know how much is received from a universal service fund, that information can be provided without mandated subaccounts. |
| 32.5081                | End User Revenue  | PSCW requested that SLC and non-SLC (e.g., USF assessments to end users) subaccounts be provided; the FCC did not adopt.<br><br><b>Verizon Response:</b><br>Verizon does not want to maintain SLC vs. non-SLC subaccounts. Verizon can make available the amount of booked USF assessments if that is what is needed.   |

| Part 32 Section | Section Title                  | Comment   |
|-----------------|--------------------------------|---|
| 32.5082         | Switched Access Revenue        | <p>PSCW requested that flat-rate (PICC) and usage-based subaccounts be provided; the FCC did not adopt.</p> <p><b>Verizon Response:</b><br/>Verizon does not want to maintain flat-rate and usage-based subaccounts. Verizon can make available the amount of revenue in 5082 that is flat-rate vs. usage-based if that is what is needed.</p>  |
| 32.5100         | Long distance message revenue  | <p>PSCW requested that respective interstate and intrastate amounts should be provided.</p> <p><b>Verizon Response:</b><br/>Verizon can separately identify interstate and intrastate.</p> <p>PSCW requested retention of accounts 5230, Directory Revenue, and 5270, Carrier billing and collection revenue, with respective intrastate and interstate amounts provided for the latter account via subaccounts. FCC may have included some items in account 5200 which the PSCW requested be included in the account 5000 series.</p> <p><b>Verizon Response:</b><br/>Verizon will continue to provide Directory Revenue information as required by the PSCW. However, mandatory use of account 5230 is not required. The PSCW should allow the LEC's to determine how they maintain the detail in subsidiary records. For Carrier billing and collection revenue, Verizon can separately identify interstate and intrastate. This again can be accomplished without the need for retaining account 5270.</p> <p>Account 5280 has not been previously adopted by the PSCW for LECs not subject to dual jurisdiction or not having an approved cost allocation manual; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b><br/>Verizon concurs.</p> |
| 32.5280         | Nonregulated Operating Revenue |   |

| Part 32 Section | Section Title                          | Comment  |
|-----------------|--|--|
| 32.5999         | General (Expense Accounts)             | <p>The PSCW USOA contains a requirement for maintaining accounting records underlying the expense matrix categories in such detail that the total of the amounts distributed and the distribution is readily available for audit and reporting purposes.</p> <p><b>Verizon Response:</b><br/>PSCW should consider eliminating the reporting of expense matrix information. In the FCC's Phase 1 Biennial Review Order on Accounting and ARMIIS (CC Docket 99-253, released 3/8/00), the requirement to report an expense matrix was eliminated.</p>  |
| 32.6114         | Tools and other work equipment expense | <p>PSCW has not yet adopted consolidation of accounts 6114 through 6116 into 6114, Tools and other work equipment expense.</p> <p><b>Verizon Response:</b><br/>PSCW should consider consolidating 6114 through 6116. See 32.2114.</p>  |
| 32.6212         | Digital electronic switching expense   | <p>PSCW requested subaccounts for packet and ATM (which represents a compilation of packets); FCC's USOA adopted subaccounts for circuit and packet; FCC did not adopt subsidiary records requirement for main distribution frame, line cards, central processing and features to assist in identification of traffic versus nontraffic sensitive costs, as requested by PSCW.</p> <p><b>Verizon Response:</b><br/>Traffic vs. nontraffic is not something that can be identified by an account. This breakdown would require a costly special study. Verizon is not sure why this breakdown is necessary. For FCC purposes, costs are no longer linked to price-cap rates, so this breakdown would not be meaningful. Verizon is also under price regulation.</p> |

| Part 32 Section | Section Title             | Comment  |
|-----------------|---------------------------|--|
| 32.6232         | Circuit Equipment Expense | <p>While FCC adopted subaccounts for electronic and optical, PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking unbundled network element (UNE) costs.</p> <p><b>Verizon Response:</b></p> <p>Loop vs. interoffice is not something that can be identified by an account. The same equipment can be jointly used for both loop and interoffice facilities. A piece of equipment can only be put into one account. To assign a dollar amount to loop vs. interoffice requires costly special studies. Such studies were previously performed in the jurisdictional separations process after amounts were booked; however those studies have since been frozen by the FCC.</p> |
| 32.6310-32.6362 | Various                   | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><b>Verizon Response:</b></p> <p>Loop vs. interoffice is not something that can be identified by an account. The same equipment can be jointly used for both loop and interoffice facilities. A piece of equipment can only be put into one account. To assign a dollar amount to loop vs. interoffice requires costly special studies. Such studies were previously performed in the jurisdictional separations process after amounts were booked; however those studies have since been frozen by the FCC.</p>   |
| 32.6410-32.6441 | Various                   | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><b>Verizon Response:</b></p> <p>See response above for 32.6310-6232.</p>  |

| Part 32 Section         | Section Title                         | Comment   |
|-------------------------|---------------------------------------|---|
| 32.6500 series Expenses |                                       | <p>PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, purchased telecommunications service for resale, and collocation expenses; FCC did not adopt. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE expense account should contain subsidiary records for each UNE defined in the UNE Remand Order.</p> <p><b>Verizon Response:</b></p> <p>Account 6500 represents Depreciation Expense. Payments for USF support and reciprocal compensation are not journalized to Depreciation Expense. Depreciation occurs on uniquely identifiable assets. Since UNE, Interconnection, Collocation involve shared assets, it is not possible to use accounts or subaccounts to record separate depreciation for the portion of the asset used for UNE, Interconnection or Collocation. That is why studies are performed and used in the related rate proceedings.</p> |
| 32.6560                 | Depreciation and amortization expense | PSCW requested retention of former accounts 6561-6565; result of FCC's non-adoption is commingling of various types of depreciation and amortization expense amounts.   |

| Part 32 Section | Section Title              | Comment  |
|-----------------|----------------------------|--|
| 32.6610-32.6620 | Marketing-Services         | <p>The PSCW requested that existing accounts 6611, 6612, 6613 and 6623 and the retail portion of account 6724, Information Management, be combined into a new account titled Retail Services; the PSCW also requested that existing accounts 6621 and 6622 and the wholesale portion of account 6724 be combined into a new account titled Wholesale Services. The FCC has established subaccounts for wholesale and retail in account 6620, Services, for Class A LECs except mid-sized LECs.</p> <p><b>Verizon Response:</b><br/>           PSCW recommendation incorrectly assumes that all Account 6610 and 6623 costs are retail. Product Management costs are resident in Account 6610. Product managers must manage wholesale operations. Besides including costs to service end users, Account 6623 includes business office costs to service CLECs, as well as CLEC billing and collection costs. These are valid wholesale costs.</p> <p>A petition for reconsideration has been filed with the FCC relative to the wholesale/retail breakdown of Account 6620 (6621, 6622, and 6623). Studies would need to be performed and costs allocated before the results of the cost allocation could be journalized. See Verizon comments for further discussion. Also, there are no UNEs in Accounts 6621 and 6622.</p> <p>PSCW's USOA includes discretionary clearing subaccounts for pension and employee benefits, and payroll taxes in former account 6728, Other General and Administrative. Also see notes above concerning PSCW-requested treatment of account 6724.</p> <p><b>Verizon Response:</b><br/>           PSCW should not require Account 6724 be separated into wholesale and retail. Identification of this breakdown would require costly special studies. See Accounts 6610-6620.</p> |
| 32.6720         | General and Administrative |  |

| Part 32 Section | Section Title                       | Comment  |
|-----------------|-------------------------------------|--|
| 32.7100         | Other Operating Income and Expenses | <p>PSCW requested retention of existing accounts 7110, Income from Custom Work, and 7130, Return from Nonregulated Use of Regulated Facilities; FCC did not adopt.</p> <p><b>Verizon Response:</b><br/>PSCW should not restructure chart of account requirements to consolidate details in a different way. If necessary, this can be done in annual reporting requirements.</p>       |
| 32.7300         | Nonoperating Income and Expense     | <p>PSCW requested that existing accounts be retained and account 7350 be renamed to Nonoperating Gains &amp; Losses; former account 7320, Interest Income, is required for PSCW's small telco earnings calculations.</p>   |
| 32.7500         | Interest and related items          | <p>PSCW requested retention of existing accounts 7500, 7510, and 7530, and combination of existing accounts 7520 and 7540 into new account 7521, Other Interest Expense.</p> <p><b>Verizon Response:</b><br/>PSCW should not restructure chart of account requirements to consolidate details in a different way. If necessary, this can be done in annual reporting requirements.</p> |

| Part 32 Section | Section Title           | Comment   |
|-----------------|-------------------------|---|
| 32.7990         | Nonregulated Net Income | <p>PSCW's USOA contains subaccounts for Nonregulated Revenues and Nonregulated Expenses and is applicable to all LECs; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>Verizon Response:</b></p> <p>In the view of the FCC, the regulated accounts are all accounts except 1406 and 7990. The Part 64 process takes dollars in selected regulated accounts and separates those into regulated and nonregulated groupings. But the accounts themselves are considered regulated accounts.</p> <p>Only Accounts 1406 and 7990 are considered nonregulated accounts. These two accounts are to be used when <i>nothing</i> is shared in the provision of the nonregulated service – in other words, entirely separate people, investment, etc., are used in the provision of the nonregulated service(s). (See FCC 32.23) In this situation, the nonregulated service(s) have a separate set of books different from the regulated set of books. The result of the separate nonregulated set of books is summarized and reflected in Accounts 1406 and 7990.</p> <p>Verizon does not have any nonregulated activities in Wisconsin that require a separate set of books; therefore, nothing is booked in Accounts 1406 and 7990.</p> |
| 32.9000         | Glossary of Terms       | <p>PSCW's USOA includes definition of "aggregate summary account"; PSCW's USOA does not include definition of "indexed revenue threshold" and the revised definition of "mid-sized incumbent local exchange carrier", which are included in the FCC's USOA.</p>   |
|                 | Other items             | <p>Cost allocation methodology; LOCOM/HOCOM studies – list of services; loan guarantees (indirect and direct subsidies); goodwill; "except for retained earnings" tracking (including situations where affiliates are wholly-owned subsidiaries).</p>   |
|                 |                         |   |
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| Part 32 Section | Section Title | Comment |
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301 S. Westfield Road  
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TDS TELECOM®

**Government and Regulatory Affairs**

September 20, 2002

**HAND DELIVERED**

Lynda L. Dorr  
Secretary to the Commission  
Public Service Commission of Wisconsin  
610 North Whitney Way  
P.O. Box 7854  
Madison, Wisconsin 53707-7854

RECEIVED  
SEP 20 2002  
TELECOM DIVISION

WISCONSIN PUBLIC SERVICE COMMISSION

2002 SEP 20 A.M. 11

RECEIVED

RE: Comments of TDS TELECOM on Prescribing a Uniform System of Accounts for Class A and B Telephone Utilities - Docket Number 05-US-113

Enclosed are the original and twenty (20) copies of TDS TELECOM's written comments in response to the Commission's request for comments in Docket 05-US-113.

If you have any questions or need additional information, please contact me at 608-664-4152.

Sincerely,

*Jean M. Pauk*

Jean M. Pauk  
Manager-External Relations

Enclosures

MFC  
CO8  
ALJ  
OGC 2  
TEL S

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Prescribing a Uniform System of  
Accounts for Class A and B  
Telephone Utilities )

Docket No. 05-US-113

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**COMMENTS OF TDS TELECOMMUNICATIONS CORPORATION**

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**Introduction**

TDS Telecommunications Corporation (TDS) submits the following comments in response to the Public Service Commission of Wisconsin's August 19, 2002 request for comments regarding whether changes should be made to the Uniform System of Accounts (USOA) for Class A and Class B telephone utilities as a result of a Federal Communications Commission (FCC) order released November 5, 2001, in CC Docket Nos. 00-199, 97-212, and 80-286 *USOA ORDER*. The FCC's changes to Part 32 of its rules will generally be effective January 1, 2003. Specifically, the request seeks comments with as many specifics as possible, including suggested language for the USOA, concerning the following list to facilitate resolution of the matter.

1. The Phase 2 Further Comments of the Public Service Commission of Wisconsin (PSCW) filed with the FCC on July 12, 2001, in CC Docket No. 00-199.
2. Whether the PSCW should adopt 47 C.F.R. 32.27, Transactions with Affiliates.

3. What consideration, if any, the PSCW should grant ILEC's subject to dual jurisdiction of the FCC and this PSCW.
4. PSCW staff analysis prepared for discussion purposes on July 24, 2002.

**TDS Is Subject to Dual Jurisdiction and Operates in Multiple States.**

TDS has incumbent local exchange operations (ILEC) in 28 different states. Wisconsin is the only state that we are aware of that is considering changes to the FCC Part 32 rules. To the best of our knowledge, other states follow the FCC Part 32 rules without special exceptions. Telephone operations in Wisconsin are not significantly different than the other states. It is a concern to us that the PSCW finds the FCC Part 32 rules deficient enough to recommend significant changes. TDS believes that it is extremely important not to have separate systems and requirements for Wisconsin. Adoption by the PSCW of differences from the FCC Part 32 USOA causes each of TDS' ILECs in Wisconsin to maintain additional financial records for federal and state reporting purposes. The PSCW provided feedback to the FCC regarding changes to Part 32 and the FCC considered those comments before adopting the final Part 32 rules. In many cases the FCC felt there was minimal benefit to the public, if any, while the cost incurred at the ILEC to comply with the suggested change exceeded that benefit.

Consistency in Part 32 between the federal and state will minimize accounting costs and play a part in controlling costs so the ILEC can be competitive with other service providers. The other providers may not have to follow the same burdensome Part 32 rules. Do not tilt the cost balance even further by adopting additional accounting requirements for only one player in the local service market.

The USOA chart of accounts is not intended to be the only source of financial information. Specific accounts or sub-accounts are not necessarily the most cost

effective method to obtain information the PSCW may ask for. Let us determine what means is best to accomplish the reporting needs of the PSCW. Creation of accounts or sub-accounts may or may not be the best way to gather information for reporting. Leave the means to report information in more account detail than the FCC Part 32 up to the ILEC. The PSCW has authority under state statute 196.02 to obtain information necessary to carry out its regulatory responsibilities. This can be through data requests. It is important that the PSCW does not initiate rules and regulations based on isolated findings of wrong doing by an unrepresentative low number of companies.

#### **The Commission Should Adopt 47 C.F.R. 32.27**

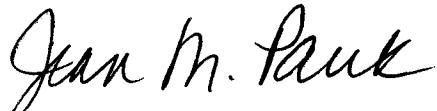
TDS has read the WSTA comments and agrees with them that fully distributed costs is the most appropriate methodology in pricing affiliated transactions, if tariff pricing, publicly filed agreement pricing, or prevailing prices are not applicable. Adoption of the FCC Part 32.27, including the Centralized Services exemption and the \$500,000 threshold, would mean most, if not all, affiliated transactions of TDS would fall under the fully distributed cost methodology. It is important to TDS that the threshold and service definitions set under the FCC's guidelines be the same under the PSCW. TDS handles affiliated transactions similar in all of the 28 states we operate and must follow 47 C.F.R. 32.27 due to dual jurisdiction. A different set of rules in Wisconsin means additional record keeping costs. These rules are set forth to help guarantee competitive fairness to other service providers. Yet, enforcing one group of service providers, the ILECs, to comply with additional record keeping requirements that other competitors do not have to creates a competitive disadvantage for those ILECs.

### **Other Comments**

WSTA recommends the adoption of primary Class A plant accounts for Class B companies. TDS is currently utilizing the primary Class A plant accounts for its Class B companies. TDS recognizes the benefit of using Class A plant accounts in understanding plant in service and establishing more meaningful and precise depreciation rates.

**CONCLUSION – TDS recommends the PSCW adopt the Part 32 rules as adopted by the FCC.**

Respectfully submitted

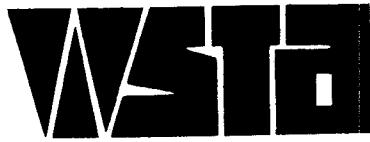


Jean M. Pauk  
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05-US-113

# Wisconsin State Telecommunications Association, Inc.

THOMAS R. SQUIRES, President  
PATRICK D. RIORDAN, Vice President  
WILLIAM C. ESBECK, Executive Director



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RECEIVED  
SEP 20 2002  
TELECOMMUNICATIONS DIVISION

September 20, 2002

Lynda L. Dorr  
Secretary to the Commission  
Public Service Commission of Wisconsin  
P.O. Box 7854  
Madison, WI 53707-7854

Re: In the Matter of Prescribing a Uniform System of Accounts  
For Class A and Class B Telephone Utilities (05-US-113)

Dear Ms. Dorr:

Please find enclosed an original and 15 copies of the Wisconsin State Telecommunications Association's (WSTA's) Comments in Docket 05-US-113, In the Matter of Prescribing a Uniform System of Accounts For Class A and Class B Telephone Utilities.

Sincerely,

A handwritten signature in cursive ink that appears to read "Barbara Waxman".

Barbara Waxman  
Office and Building Manager

BW/nl

Enclosures

MFC  
CO 8  
ALJ  
OGC 2  
Tele 5

DIRECTORS:  
DAVID BYERS, Mt. Horeb  
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GARY CHRISTOPHERSON, Mankato  
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TODD C. SCHAFER, Appleton  
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MICHAEL WALSH, Hager City  
DOUGLAS J. WENZLAFF, Wisconsin Rapids  
WILLIAM C. WISWELL, Elkhorn

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Prescribing a Uniform System of  
Accounts for Class A and B  
Telephone Utilities )

Docket No. 05-US-113

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**COMMENTS OF WISCONSIN STATE TELECOMMUNICATIONS ASSOCIATION**

---

**Introduction**

The incumbent local exchange carrier (ILEC) members of the Wisconsin State Telecommunications Association (WSTA) submit the following comments in response to the Public Service Commission of Wisconsin's August 19, 2002 request for comments regarding whether changes should be made to the Uniform System of Accounts (USOA) for Class A and Class B telephone utilities as a result of a Federal Communications Commission (FCC) order released November 5, 2001, in CC Docket Nos. 00-199, 97-212, and 80-286 (*USOA Order*). The FCC's changes to Part 32 of its rules will generally be effective January 1, 2003. Specifically, the request seeks comments with as many specifics as possible, including suggested language for the USOA, concerning the following list to facilitate resolution of the matter.

1. The Phase 2 Further Comments of the Public Service Commission of Wisconsin (PSCW) filed with the FCC on July 12, 2001, in CC Docket No. 00-199.
2. Whether the PSCW should adopt 47 C.F.R. 32.27, Transactions with Affiliates.
3. What consideration, if any, the PSCW should grant ILEC's subject to dual jurisdiction of the FCC and this PSCW.

4. PSCW staff analysis prepared for discussion purposes on July 24, 2002.

## **WSTA Comments Regarding Variations between the FCC and PSCW**

### **Recommended Accounts:**

The PSCW should adopt the FCC USOA with as few exceptions as possible. The FCC USOA is used as a common basis for recording and analyzing financial information by all the ILECs throughout the country. Consistency of the PSCW's USOA with the FCC USOA will result in lower accounting costs. If the PSCW makes the determination that additional or different accounts or sub-accounts are needed then each ILEC will, in essence, need to create two sets of financial records. One set of books that meet the state filing and record keeping requirements under the PSCW USOA and the second under the FCC USOA. The incremental costs associated with variations from the FCC USOA would have to be assigned to the state jurisdiction and ultimately result in higher service costs to the public. The ILECs will have additional costs that other providers not having to follow the USOA will not have. In a competitive market a more complicated USOA is a cost disadvantage to those having to implement it. The purpose of any chart of accounts is not to be the one and only source of financial information. Much of the information the PSCW has requested in the past in the annual report has not had sub-accounts and yet the ILECs are able to provide the data. The PSCW should leave the mechanism to be able to supply this information to each ILEC. For example, what may be the best method for one ILEC to determine affiliated accounts receivable balances may not be the most cost affective way for another ILEC. Docket 01-305 of the FCC indicated their review of the USOA lead the FCC to accounting and reporting reforms that will streamline accounting requirements, relaxing certain aspects of affiliate transaction rules, reduce the cost of

regulatory compliance, and reduce ARMIS reporting requirements. The USOA proposed by the PSCW will increase the cost of complying with the accounting requirements. The adoption of Part 32.27, with the Centralized Services exemption and the \$500,000 threshold will limit the use of Higher of Cost or Market/Lower of Cost or Market (HOCOM/LOCOM). Following HOCOM/LOCOM rules is a costly undertaking with little or no benefit. The staff recommendations give no consideration to the cost to comply with the requirements. The PSCW should have a compelling specific need for the information that outweighs the cost to ILECs for complying with a more stringent USOA requirement. A general need of promoting competition is not sufficient; instead the need should be specific on how it helps promote competition. The PSCW consideration of cost is critical for two main reasons. One, in a monopoly environment, the cost of complying is ultimately borne by the ILECs' customers. Two, in a competitive environment, requiring ILECs to comply with USOA, while other competitors, such as wireless and cable providers, do not have to comply with USOA puts the ILECs at competitive disadvantage.

WSTA agrees with the general philosophy of the FCC regarding changes to the USOA. That general philosophy is the creation of a simple, basic USOA. The PSCW USOA is more complicated than the FCC's USOA and now the burden of proof is on those who wish to simplify it to the FCC USOA version. The burden of proof should be on the inclusion of any deviation from the FCC USOA.

WSTA is aware that the FCC has recently established a Federal-State Joint Conference on Accounting Issues. At this point it is uncertain what, if any, changes the Joint Conference will recommend regarding the USOA that will be effective January 1, 2003. WSTA believes it is unlikely that the FCC will act on any Joint Conference recommendations prior to the January 1, 2003 effective date. As a result,

WSTA recommends the PSCW proceed as scheduled with addressing what changes are appropriate to the USOA. Consistent with the WSTA position that the PSCW should start with the FCC's Part 32 USOA, any future changes to the USOA the FCC adopts from the Joint Conference's recommendations should be considered at the time the FCC adopts the changes. WSTA is also aware that the FCC has received petitions for reconsideration of its USOA Order. Parties have requested the FCC eliminate the requirement for retail-wholesale accounting in the USOA. WSTA recommends that the PSCW should consider any changes the FCC adopts due to petitions for reconsideration.

Upon review of the PSCW and FCC's Part 32 rules there are many sections that have references to other sections within Part 32. For instance, any changes to the PSCW's USOA for Part 32.2007, Goodwill, should also be incorporated throughout the various other sections where Goodwill is referenced. Without the synchronization of the entire Part 32 rules, as ILECs apply their understanding of the rules confusion and errors may occur. It is important to adopt changes throughout Part 32 that clearly indicate to every ILEC the PSCW's intentions. WSTA would encourage the PSCW to do a comprehensive review for inconsistencies before implementation of a new Part 32.

WSTA has provided more detailed comments to the Part 32 sections in Attachment A.

**Adoption of 47 C.F.R. 32.27, Transactions with Affiliates:**

The PSCW should adopt 47 C.F.R. Part 32.27, Transactions with Affiliates with the exception of paragraph (f), which excludes companies that are Average Schedule. WSTA recommends that the PSCW modify the first sentence of paragraph (f) as follows "Companies that employ average schedules in lieu of actual costs are subject to the

provisions of this section, unless they are exempt from Wis. Stats. §§ 196.52 and 196.204." The proposed modification subjects average schedule ILECs to the same requirements as non-average schedule ILECs unless an average schedule is exempt from compliance with Wisconsin statutes pertaining to transactions with affiliates. WSTA wants to make certain that if the underlying statutes for complying with accounting for transactions with affiliates are eliminated, then the state accounting requirements will be eliminated. Given all ILECs are subject to the current state affiliated interest requirements; all ILECs are looking for clear guidance on transactions with affiliates. Adoption of Part 32.27 would provide this. WSTA urges the PSCW not to make policy and procedures on transactions with affiliates based on isolated instances of non-compliance. The PSCW should not use the USOA as a means for overseeing non-financial activities such as Goodwill and Loan Guarantees. The FCC Part 32.27, Part 64, and Wisconsin State Statute 196.204 provide the framework for accounting for affiliated transactions and non-regulated operations. A lack of uniformity in accounting for affiliated transactions between the federal and state jurisdictions causes inconsistencies and increased cost with little or no benefit.

The FCC has determined the incumbent local exchange carriers are permitted to use the prevailing market price to account for transactions between affiliates where 25% or more of the transactions are to third parties. The FCC felt this 25% threshold would be significant enough to protect the public from inappropriate price structures of affiliated services. The FCC concluded that the prevailing price as evidenced by 25% or more of sales transactions to third parties is a valid surrogate for the market price. WSTA agrees with the FCC's assessment and the adoption of the prevailing price guidelines of the FCC.

WSTA believes that the HOCOM/LOCOM test is inconsistent with Wis. Stat. § 196.204 (1), which requires that affiliated company transactions be priced to benefit neither entity. Adoption of Part 32.27, including the Centralized Services exemption and the \$500,000 threshold, means most, if not all, affiliated transactions would fall under a Fully Distributed Cost (FDC) basis. The symmetrical application of FDC to both transactions to and from affiliates ensures compliance with the Wis. Stat. § 196.204(1) requirement.

The PSCW should adopt the Centralized Services exemption and the \$500,000 threshold exemption. The adoption of Part 32.27, with the Central Services exemption and the \$500,000 threshold will limit the use of Higher of Cost or Market/Lower of Cost or Market (HOCOM/LOCOM). Following HOCOM/LOCOM rules with a lower threshold is a costly undertaking with little or no benefit.

The Centralized Services exemption allows the ILECs to use FDC as a means of pricing services between affiliate companies when the affiliated service provider only provides services to affiliate companies. The Central Services exemption that the FCC has adopted provides protection from inappropriate cross subsidies between affiliated companies. A service company exists as a means to pass on the cost of doing business in an efficient and cost-effective manner. Market value studies would result in a highly subjective exercise with the sole purpose to identify services that could be acquired currently at a lower price elsewhere. However, the decision on what services are provided internally involves more than considering the current market price. Other factors such as internal control and maintaining expertise within the company, and assurance of adequate resources also go into the determination of whether to provide a service within the company or outsource the service. The PSCW should adopt the Centralized Services exemption and permit service companies to price

services based on FDC. Permitting service companies to price services at FDC is the best way to ensure no cross subsidies exist either way between affiliated service providers and affiliated service customers. Further, all entities, including the ILEC benefit from the cost efficiencies that arise from centralized services when FDC is used to determine transfer prices.

The \$500,000 threshold exemption should apply to all ILECs without consideration to size. The FCC determined that \$500,000 for an asset or a service was the appropriate level to require a HOCOM/LOCOM test and that it was not appropriate to require a HOCOM/LOCOM test for transactions less than \$500,000. Further, the FCC established the \$500,000 threshold for all ILECs, not just Class A companies. WSTA concurs with the FCC that \$500,000 is the appropriate threshold for even the smallest companies because of the higher per customer cost in conducting market value studies.

**Degree of Consideration, if any, the PSCW should grant ILECs Subject to Dual Jurisdiction:**

The differences between the FCC Part 32 and the PSCW's Part 32 should be an absolute minimum. All ILEC's are required to follow the USOA so any changes to the FCC USOA would cause a burden to every company. The PSCW should consider all ILECs when making changes to the USOA and not just Class A companies. A greater cost burden would exist at the smaller companies and their customers because the cost per customer to implement any changes would be higher. The PSCW has authority under 196.02 to obtain information from ILECs that it needs to carry out its regulatory oversight. Adoption of Part 32, as proposed by the WSTA, does not limit the PSCW's ability to carry out its regulatory responsibilities and at the same time does

not impose additional costs or requirements on Wisconsin ILECs' compliance with the PSCW's USOA.

**Other PSCW Staff Issues Presented on July 24<sup>th</sup>.**

WSTA offers the following comments on the other issues presented on July 24<sup>th</sup> by the PSCW staff:

HOCOM/LOCOM studies – list of services. The list of services provided by the PSCW to date does not provide sufficient guidance on what constitutes a service or the type of services that should be subjected to a HOCOM/LOCOM test. The list of services provided included "Other General and Administrative" which is an account description not a service. Further, the list of services that HOCOM/LOCOM market studies would be conducted on are very subjective. For example, Accounting Services could be further divided between Financial Statement preparation and report preparation. Financial Statement preparation could be further divided between Accounts Payable and Accounts Receivable. Accounts Payable could be further divided between keying invoices and filing. This list is endless. Even if the PSCW were to devise a list of services it would be unclear what functions are included in the service and therefore any application of scope limitations would be applied differently between companies. The problems WSTA has identified with defining services for HOCOM/LOCOM studies, provides additional justification for adopting the Centralized Services exemption and the \$500,000 threshold. If the PSCW adopts the FCC's two exceptions then the general guidance needed is minimal since the HOCOM/LOCOM test will be applied in a limited number of cases where case specific guidance can be provided. However, if the PSCW adopts a threshold below \$500,000 and does not

provide a Centralized Services exemption then specific guidance is needed since the HOCOM/LOCOM test will likely be applied to routine transactions.

Loan guarantees (indirect and direct subsidies) - The loan guarantee compensation for direct and indirect subsidies proposed by the PSCW staff should not be adopted by the PSCW within the USOA. The FCC does not require compensation for these types of arrangements and the methods for determining the compensation on all types of guarantees has not been determined.

Goodwill - The goodwill compensation methods proposed by the PSCW in various meetings with staff should not be adopted within the USOA. The FCC does not require compensation for goodwill to be recorded and a methodology that works for all ILECs is unattainable. The goodwill concept is all encompassing and includes all types of goodwill, not just goodwill generated by the "parent". Therefore, until guidance is developed that can articulate the proper accounting for goodwill for all ILEC's, it should not be adopted.

"Except for retained earnings" tracking worksheet - The requirement that the Annual Report to the Public Service Commission of Wisconsin contain a tracking worksheet for the except for retained earnings provisions of 196.204(1) should not be adopted. Clear guidance on how the subsidies identified should be measured against 196.204(1) has not been developed. It is clear however that the settlement of the subsidy should include all available forms including, additional investments in the affiliate, writing off of the receivable from the affiliate (a method identified by the PSCW), and recording of the earnings from the affiliate under the equity method of accounting.

**CONCLUSION – The PSCW should adopt the FCC's revisions to the USOA with limited exceptions. The two key exceptions WSTA recommends the PSCW make are Class B Plant in Service accounts should be the same as Class A Primary Plant accounts and Part 32.27 paragraph (f) which excludes Average Schedule companies should be modified as proposed by WSTA.**

Respectfully submitted



Nick Lester  
Manager of Regulatory Affairs  
WSTA  
6602 Normandy Lane  
Madison, WI 53719  
Telephone: 608/833-8866

**Part 32 – Uniform System of Accounts (USOA) for Class A and Class B Telephone Utilities****Docket 05-US-113**

**Commission Staff Comparison of the Public Service Commission of Wisconsin's (PSCW) Current USOA (With Selected Additional Accounts Suggested in Comments Filed by the PSCW) and the Federal Communications Commission's (FCC)**

**Part 32 USOA to be Effective January 1, 2003**

**WSTA Comments follow the staff comments below**

| <b>Part 32 Section</b> | <b>Section Title</b>        | <b>WSTA Comments</b>  |
|------------------------|-----------------------------|---|
| 32.11                  | Classification of companies | FCC's Class A and Class B classification is based on revenues, whereas PSCW's classification is access-line based.<br><i>WSTA: Agrees with current PSCW classification of Class A and Class B based on access lines and the small company definitions referenced in the Wisconsin State statutes 196.01 (8).</i>  |
| 32.13                  | Accounts-general            | The FCC eliminated paragraph (a)(1) and renumbered remaining paragraphs; FCC's renumbered paragraph (a)(2) allows local exchange carriers (LECs) to establish temporary or experimental accounts without prior notice, whereas the PSCW's requires notice of nature and purpose within 30 days.<br><i>WSTA: Agrees with 30 notice requirement.</i>  |
| 32.14                  | Regulated accounts          | PSCW's paragraph (c) notes that investment, expenses and other costs associated with joint provision of regulated and other products and services should be initially accounted for as regulated; PSCW's paragraph (e) also references regulated accounts for joint participation or apportionment between two or more telephone companies; unclear as to whether this varies from FCC's requirements; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.<br><i>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</i> |

| Part 32 Section | Section Title                            | WSTA Comments   |
|-----------------|--|---|
| 32.16           | Changes in Accounting Standards          | <p>PSCW's USOA requires revenue requirement study or analysis with notification of intent to adopt an accounting standards change; PSCW's USOA also includes paragraph (c) which specifies that LEC shall notify the PSCW of matters of significance, defined both qualitatively and quantitatively.</p> <p><i>WSTA: Companies are required to follow all accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. A revenue requirement study or analysis serves no purpose for the PSCW if the company falls under price-cap regulation, alternative regulation or receives the small company RI rate oversight exemption. Almost all companies fall within these groups. The only purpose of providing this analysis would be for earnings investigation of which the PSCW should not be conducting in conjunction with accounting standard changes.</i></p> <p>PSCW's USOA incorporates "matters of significance" definition contained in PSCW § 32.16.</p> |
| 32.17           | Interpretation of accounts               | PSCW's USOA does not contain this item.   |
| 32.19           | Address for reports and correspondence   | PSCW's USOA contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for tax differentials that are phased in.  |
| 32.22           | Comprehensive Interperiod Tax Allocation | <p><i>WSTA: All LECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the LEC.</i></p>  |

| Part 32 Section | Section Title                            | WSTA Comments  |
|-----------------|--|--|
| 32.23           | Nonregulated activities                  | <p>PSCW's USOA references its § 32.14, as well as accounts 1406, 7130, and 7990; PSCW's USOA contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW; FCC's USOA references accounts 1406, 5280, and 7990, as well as § 32.27, Transactions with Affiliates.</p> <p><i>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the LEC.</i></p>   |
| 32.24           | Compensated Absences                     | <p>PSCW's USOA requires approval by the PSCW to record entry.</p>  |
| 32.25           | Unusual Items and contingent liabilities | <p>PSCW's USOA requires prior PSCW approval; dollar thresholds for corrections specified.</p>  |
| 32.27           | Transactions with Affiliates             | <p>PSCW did not previously adopt FCC's § 32.27 because of jurisdiction provided by Wis. Stat. § 196.52; tariff, prevailing price, higher of cost or fair market value (HOCOM), or lower of cost or fair market value (LOCOM) options provided in FCC's USOA; floor and ceiling encompassed in FCC's USOA; \$500,000 threshold for market studies in FCC's USOA; FCC's prevailing price threshold of greater than 25 percent of sales to third parties, except for section 272 activity; FCC's paragraph (f) exempts LECs that settle interstate activity on average schedule basis; PSCW addressed HOCOM in Chibardun Telephone Cooperative's 1090-TI-100 order; PSCW addressed LOCOM and rejected centralized services exception in CenturyTel-Kendall's 2815-TR-103 2001 rate order.</p> <p><i>WSTA: WSTA recommends the PSCW adopt the FCC's 32.27 language without deviation except for paragraph (f) as commented below. All other state commissions that WSTA is aware of have or will be adopting the FCC's 32.27. WSTA contends the telephone industry in Wisconsin has no significant differences from other states. WSTA has a concern that some of the PSCW's USOA policy rules and procedures are being developed based on issues of concern with isolated carriers.</i></p> |

| Part 32 Section | Section Title              | WSTA Comments   |
|-----------------|----------------------------|---|
| 32.27(a)        | Point of Notification      | <p><b>WSTA: Change Chief Common Carrier Bureau with Public Service Commission of Wisconsin as the point of contact.</b></p> <p><b>WSTA:</b> The FCC determined that there would be no discernable harm to the public if carriers were not required to do a fair market comparison for asset transfers that are less than \$500,000. WSTA knows of no other states that are going to be lowering this dollar threshold. The FCC is giving carriers the flexibility to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates.</p>   |
| 32.27(b)        | Assets Sold or Transferred | <p><b>WSTA:</b> The FCC determined that there would be no discernable harm to the public if carriers were not required to do a fair market comparison for service(s) provided between an ILEC and affiliates that are less than \$500,000. WSTA knows of no other states that are going to be lowering this dollar threshold. The FCC is giving carriers the flexibility to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates.</p>  |
| 32.27(c)        | Services Provided          | <p><b>WSTA:</b> The FCC has recognized a centralized services exception for affiliated services. FCC 01-305 paragraph 96 states: When the FCC adopted this exception in the Accounting Safeguards Order, it explained that the narrow exception to the general rule was justified because an affiliate that provides services solely to the incumbent carrier's corporate family is established to take advantage of economies of scale and scope. The benefits of such economies of scale and scope are reflected in the affiliate's costs and are ultimately transferred to ratepayers through transactions with the incumbent carrier for such services valued at fully distributed costs. Requiring incumbent carriers to perform fair market valuations for such transactions would increase the cost to ratepayers while providing limited benefit.</p> |
| 32.27(d)        | Prevailing Price           | <p><b>WSTA:</b> The FCC eliminated the need to do a fair market valuation in situations where third party sales amount to greater than 25 percent of total sales volume for that asset or service. The FCC agreed with the PSCW's comment that the amount of sales must represent a significant influence on the carrier's pricing decision when the FCC adopted the 25% threshold. Once again, the FCC felt the risk of harm to the public was minimal and therefore eliminated the need to do a fair market valuation when a prevailing price exists.</p>   |

| Part 32 Section | Section Title   | WSTA Comments  |
|-----------------|---|--|
| 32.27(f)        | Average Schedule Companies  | <p><b>WSTA:</b> Recommends that the PSCW eliminate the first sentence and replace the sentence as follows “Companies that employ average schedules in lieu of actual costs are subject to the provisions of this section, unless they are exempt from Ws. Stats. §§ 196.52 and 196.204.” The proposed modification subjects’ average schedule ILECs to the same requirements as non-average schedule ILECs unless an average schedule is exempt from compliance with Wisconsin statutes pertaining to transactions with affiliates.</p>  |
| 32.101          | Structure of the Balance Sheet Accounts                                       | <p>PSCW has not previously adopted account 2007, Goodwill.</p> <p><b>WSTA:</b> WSTA supports the PSCW's adoption of account 2007, Goodwill.</p>  |
| 32.102          | Nonregulated investments  | <p>FCC’s USOA references §§ 32.14 and 32.23 for joint or common use of assets or resources in provision of both regulated and nonregulated products and services; PSCW’s USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA:</b> All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</p> |
| 32.103          | Balance Sheet Accounts for Other than Regulated-Fixed Assets to be Maintained | <p>See respective accounts below for PSCW's comments filed with FCC in Comprehensive Accounting Review proceeding.</p>   |

| Part 32 Section       | Section Title                   | WSTA Comments   |
|-----------------------|---------------------------------|---|
| 32.1000 & 2000 series | Assets                          | <p>Sufficient detail (e.g., account 1402, Investment in RTB Class B Stock amount) must be available in the new USOA for the PSCW to continue to perform small telco equity thin and earnings calculations.</p> <p><i>WSTA: The ILECs have proven the ability to provide this information to the commission in the past through the annual report filings even though the USOA as amended by the PSC does not require sub accounts. Do not mandate to the ILECs how to determine the affiliated and nonaffiliated breakdown by creating separate accounts. Leave it up to individual companies as to the most efficient cost effective means to determine the affiliate and nonaffiliate balances for PSCW reporting purposes.</i></p> <p>FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable from other receivables, as suggested by the PSCW.</p> <p><i>WSTA: The ILECs have proven the ability to provide this information to the PSCW in the past through the annual report filings even though the USOA as amended by the PSC does not require sub accounts. Do not mandate to the ILECs how to determine the affiliated and nonaffiliated breakdown by creating separate accounts. Leave it up to individual companies as to the most efficient cost effective means to determine the affiliate and nonaffiliate balances for PSCW reporting purposes.</i></p> <p>FCC's USOA retains affiliated and nonaffiliated breakdown in subsidiary record categories; however, FCC's USOA did not isolate telecommunications accounts receivable allowance from other receivables allowance, as suggested by the PSCW</p> <p><i>WSTA: The ILECs have proven the ability to provide this information to the commission in the past through the annual report filings. Do not mandate to the ILECs how to determine the affiliated and nonaffiliated breakdown by creating separate accounts. Leave it up to individual companies as to the most efficient cost effective means to determine the affiliate and nonaffiliate balances for PSCW reporting purposes.</i></p> |
| 32.1170               | Receivables                     |   |
| 32.1171               | Allowance for doubtful accounts |   |

| Part 32 Section | Section Title            | WSTA Comments   |
|-----------------|--------------------------|---|
| 32.1220         | Inventories              | <p>FCC's USOA states that items solely related to a nonregulated activity should be accounted for in a different account; the PSCW's USOA specifies that account 1406 should be used for materials and supplies dedicated to nonregulated, with the exception of items held for sale or lease; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><i>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</i></p> |
| 32.1406         | Nonregulated investments | <p>FCC's USOA eliminated subaccounts for permanent investment, depreciation reserve, and inventory; PSCW's USOA also prescribes accounting for LECs not subject to dual jurisdiction; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><i>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</i></p>  |
| 32.1410         | Other noncurrent assets  | <p>PSCW had requested that affiliated portion of investments in affiliates and affiliated portion of sinking funds be identified; unclear if FCC's subsidiary record requirement for advances to affiliates covers this.</p> <p><i>WSTA: The ILECs have proven the ability to provide this information to the commission in the past through the annual report filings. Do not mandate to the ILECs how to determine the affiliated and nonaffiliated breakdown by creating separate accounts. Leave it up to individual companies as to the most efficient cost effective means to determine the affiliate and nonaffiliate balances for PSCW reporting purposes.</i></p>  |

| Part 32 Section | Section Title                                      | WSTA Comments   |
|-----------------|--|---|
| 32.2000         | Instructions for telecommunications plant accounts | <p>PSCW has not yet adopted consolidation of accounts 2114 through 2116 into 2114, Tools and other work equipment; PSCW's USOA provides that Class B LECs may elect to continue to capitalize items costing between \$500 to \$2,000 provided that verifiable inventory records are maintained; FCC's USOA provides that cost of tools and test equipment located in the central office, classifiable to accounts 2210-2232 costing \$2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts; PSCW has not yet adopted account 2007, Goodwill; PSCW requires filing and approval of journal entries for acquisitions of plant where consideration is \$100,000 or greater; is calculation of a theoretical reserve for the acquired plant required (per § 32.2005 "reserve requirements" language)?; PSCW's USOA mentions Wis. Stat. § 196.09(1) as it concerns depreciation charges; perhaps reference should be changed to § 196.09(9) due to language changes in 1993 Wisconsin Act 496.</p> |
|                 |  | <p><i>WSTA: WSTA recommends the PSCW's USOA continue to provide an option to for each ILEC to capitalize items costing between \$500 to \$2,000 provided that verifiable inventory records are maintained. WSTA supports the adoption of the FCC's provision that the cost of tools and test equipment located in the central office, classifiable to accounts 2210-2232 costing \$2,000 or less or having a life of less than one year be charged to the applicable Plant Specific Operations Expense accounts. WSTA supports the PSCW's adoption of account 2007, Goodwill.</i></p>   |
|                 |  | <p><i>It is important to adopt changes throughout Part 32 including this section that clearly indicate to every ILEC the PSCW's intentions as far as synchronizing and cross referencing all changes within the USOA.</i></p>   |
| 32.2002         | Property Held for Future Telecommunications Use    | <p>PSCW's USOA requires LEC to request approval to retain property in this account for longer than two years; FCC's USOA allows LEC to retain property in this account for longer than two years as long as it is excluded from rate base and ratemaking considerations.</p>  |
| 32.2003         | Telecommunications Plant Under Construction        | <p>PSCW's USOA requires LEC to reclassify project cost to account 2006, Nonoperating Plant, if project has been suspended for six months or more; FCC's USOA allows LEC to retain project cost in this account as long as it is excluded from rate base and ratemaking considerations.</p>  |

| Part 32 Section | Section Title                       | WSTA Comments   |
|-----------------|-------------------------------------|---|
| 32.2005         | Telecommunications Plant Adjustment | FCC's USOA nets amortization amount in account 2005; FCC's USOA requires approval for disposal of amounts of \$100,000 where not acquired from an affiliated company; PSCW's USOA includes \$10,000 threshold.  |
| 32.2007         | Goodwill                            | Although the PSCW has not previously adopted this account, it did support the adoption in comments filed with the FCC.<br><i>WSTA: WSTA supports the PSCW's adoption of account 2007, Goodwill.</i>   |
| 32.2110-32.2690 | All plant accounts                  | In past USOA orders, the PSCW has required Class B LECs to follow the same accounts as Class A LECs.<br><i>WSTA: Class B companies do see the benefits through the flexibility in establishing depreciation rates of using Class A company primary plant accounts. The requirement for Class B companies to comply with recording and maintaining account activity in detail greater than primary Class A plant accounts is not cost beneficial and should not be required.</i> |
| 32.2114         | Tools and other work equipment      | The PSCW has not previously adopted the consolidation of former accounts 2114 through 2116 into new account 2114.<br><i>WSTA: WSTA supports the consolidation of accounts 2114 through 2116 into the new account 2114, Tools and Other Work Equipment.</i>  |
| 32.2123         | Office Equipment                    | FCC's USOA eliminated subaccounts for office support equipment and company communications equipment.<br><i>WSTA: WSTA supports the elimination of sub-accounts for 2123, Office Equipment.</i>  |

| Part 32 Section | Section Title                | WSTA Comments  |
|-----------------|------------------------------|--|
| 32.2212         | Digital Electronic Switching | <p>PSCW requested subaccounts for packet and ATM (which represents a compilation of packets); FCC's USOA adopted subaccounts for circuit and packet; FCC did not adopt subsidiary records requirement for main distribution frame, line cards, central processing and features to assist in identification of traffic versus nontraffic sensitive costs, as requested by PSCW.</p> <p><i>WSTA recommends the PSCW adopt the FCC's USOA's established sub-accounts for Circuit and Packet. These sub-accounts should apply to Class A companies only. Maintaining records for ATM would be extremely time consuming and costly. There are industry standards in place that enable companies to determine revenue requirements for traffic versus non-traffic sensitive costs through Part 36, the cost separation process. The interstate average schedule companies are not required to do a cost study and this would be a significant financial burden to determine current classification of assets. WSTA knows of no other state commission that is requesting subaccounts providing more detail than the FCC USOA. The USOA should not be the means to obtain every piece of information needed to manage a telephone company. In the original Phase 2 comments, the Wisconsin Commission indicated the USOA must evolve to meet the needs of company management, regulators, investors, and competitors. The FCC's USOA meets the needs of company management. The investors typically see even a much higher level of detail than the USOA. Competitors already have more information available to them than any other industry we can think of. Other states have not shown a need to have ILECs provide more detailed asset subaccounts. The PSCW has not proven a need to do so.</i></p> <p><i>The FCC is reducing the cost of regulatory compliance through its recommendations. Through adoption of subaccounts or record keeping for ATM assets the PSCW would increase the burden of regulatory compliance over the past USOA of the PSCW.</i></p> |
| 32.2232         | Circuit Equipment            | <p>While FCC adopted subaccounts for electronic and optical, PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking unbundled network element (UNE) costs.</p>  |

| Part 32 Section | Section Title            | WSTA Comments   |
|-----------------|--------------------------|---|
| 32.2310-32.2362 | Various                  | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><b>WSTA: WSTA believes the embedded historical cost amounts have no bearing on the determination of UNE rates. FCC rules require UNE rates to be based on forward looking costs. The subaccounts the PSCW are recommending should not be adopted. Additionally, UNE costs do not make sense for this category.</b></p>   |
| 32.2311         | Station Apparatus        | <p>PSCW USOA would include handicapped customer premises equipment offered under tariff by LECs (perhaps in account 2362); PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</b></p> |
| 32.2321         | Customer Premises Wiring | <p>PSCW USOA notes that all customer premises wiring is deregulated and should be classified in other accounts; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</b></p>            |

| Part 32 Section | Section Title                  | WSTA Comments   |
|-----------------|--------------------------------|---|
| 32.2341         | Large Private Branch Exchanges | <p>PSCW USOA would include handicapped customer premises equipment offered under tariff by LECs (perhaps in account 2362); PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</b></p> |
| 32.2410-32.2441 | Various                        | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><b>WSTA: WSTA believes the embedded historical cost amounts have no bearing on the determination of UNE rates. FCC rules require UNE rates to be based on forward looking costs. The subaccounts the PSCW are recommending should not be adopted.</b></p>  |
| 32.2682         | Leasehold Improvements         | <p>FCC's USOA nets amortization amount in account 2682.</p> <p><b>WSTA: See comments at 32.3400 regarding the FCC's reconsideration of the netting of amortization with the plant account, 2682, Leasehold Improvements.</b></p>  |
| 32.2690         | Intangibles                    | <p>FCC's USOA nets amortization amount in account 2690.</p> <p><b>WSTA: WSTA supports the adoption of the FCC's netting of the amortization in the USOA. Reporting of the gross asset and amortization can be done through the annual report. Leave it up to the IEC to determine their best means to accomplish reporting this information. The amortization does not have to be an explicit account.</b></p>  |

| Part 32 Section       | Section Title  | WSTA Comments   |
|-----------------------|--|---|
| 32.3400               | Accumulated amortization-tangible                    | <p>While the FCC's March 8, 2002 Order on Reconsideration added back this account for Class B LECs, it is unclear whether account 3420, Accumulated Amortization-Leasehold Improvements, is also being added back for Class B LECs since the description for account 3400 references both accounts 3410 and 3420.</p> <p><b>WSTA: The FCC's March 8, 2002 Order on Reconsideration did add back account 3400. The intent was to add back Accumulated Amortization-Leasehold Improvements. The PSCW should retain account 3400 consistent with the FCC USOA.</b></p>   |
| 32.3000 & 4000 series | Contra Assets and Liabilities                        | <p>Sufficient detail (e.g., former accounts 3420, 3500, 4020, 4050, 4060, 4210, 4250, 4260, and 4270) must be available in the new USOA for the PSCW to continue to perform small telco equity thin and earnings calculations.</p> <p><b>WSTA: The sufficient detail necessary for the PSCW to continue to perform the small telco equity thin and earnings calculations can be obtained by other means other than requiring subaccounts or additional subsidiary records. The information can be requested in the Annual Report or through an individual data request. The number of Companies subject to rate of return regulation that would require an earnings calculation does not warrant mandatory subaccounts or subsidiary records.</b></p> |
| 32.4050-32.4060       | Current Maturities-Long-Term Debt and Capital Leases | <p>PSCW requested that current maturities remain isolated, although they could be combined into a single distinct account; the FCC has combined these two accounts into account 4130, Other current liabilities, along with other items.</p> <p><b>WSTA: The current maturities information that the PSCW is looking for can be requested in the Annual Report and does not warrant a mandatory subaccount or subsidiary record.</b></p>  |
| 32.4070               | Income Taxes-Accrued                                 | <p>PSCW's USOA requires subaccounts for federal and state income taxes.</p> <p><b>WSTA: Mandatory subaccounts for state and federal income taxes are no longer necessary for the Annual Report.</b></p>   |

| Part 32 Section | Section Title                  | WSTA Comments  |
|-----------------|--------------------------------|--|
| 32.4200         | Long term debt and funded debt | <p>The PSCW requested that account 4260, Advances from affiliated companies, remain isolated; it is unclear whether the subsidiary records requirement set forth in paragraph (b) of account 4200 will meet this request.</p> <p><b>WSTA: The ILECs have proven the ability to provide this information to PSCW in the past through the annual report filings even though the USOA as amended by the PSC does not require sub accounts. Do not mandate to the ILECs how to determine the affiliated and nonaffiliated breakdown by creating separate accounts. Leave it up to individual companies as to the most efficient cost effective means to determine the affiliate and nonaffiliate balances for PSCW reporting purposes.</b></p> |
| 32.4511         | Members Equity                 | <p>Not adopted by the FCC; pending request by the 11 cooperatives before the PSCW to establish this account.</p> <p><b>WSTA: Requested changes moved with the establishment of Docket 05-US-115. Any changes adopted in Docket 05-US-115 should be incorporated into the USOA adopted by the PSCW.</b></p>   |
| 32.4520         | Additional Paid-in Capital     | <p>The PSCW's 2001 order in 1090-TI-100 directed Chibardun Telephone Cooperative to reclassify its patronage capital from account 4550, Retained Earnings, to account 4520.</p> <p><b>WSTA: Requested changes moved with the establishment of Docket 05-US-115. Any changes adopted in Docket 05-US-115 should be incorporated into the USOA adopted by the PSCW.</b></p>  |
| 32.4550         | Retained Earnings              | <p>Pending request by the 11 cooperatives before the PSCW to establish subaccounts 4550.1, Retained Earnings-Patronage Capital Unassigned, and 4550.2, Retained Earnings-Patronage Capital Assigned.</p> <p><b>WSTA: Requested changes moved with the establishment of Docket 05-US-115. Any changes adopted in Docket 05-US-115 should be incorporated into the USOA adopted by the PSCW.</b></p>   |

| Part 32 Section | Section Title   | WSTA Comments   |
|-----------------|---|---|
| 32.4999         | General Purpose of Revenue Accounts (Nonregulated Revenues) | <p>Paragraph (1) has not been previously adopted by the PSCW for LECs not subject to dual jurisdiction or not having an approved cost allocation manual; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><i>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</i></p> |

| Part 32 Section | Section Title    | WSTA Comments  |
|-----------------|------------------|--|
| 32.5000 series  | Local Revenues   | <p>PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, resale, and collocation revenues; FCC did not adopt; however, it did include some of these items in account 5200, Miscellaneous revenue. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE revenue account should contain subsidiary records for each UNE defined in the UNE Remand Order.</p> <p><i>WSTA: There is a dramatic contrast in the level of detail (subaccounts and subsidiary records) required by the FCC USOA and what the PSCW is proposing. The FCC eliminated three accounts (5004, 5050, and 5069) and the PSCW requested the addition of seven accounts for UNE's, interconnection, reciprocal compensation, state and federal universal service support, resale, and collocation. All of the accounts requested by the PSC are for more recently developed services that did not exist when the USOA was first developed. The FCC considered establishing these new accounts proposed by the PSCW but realized the following three things:</i></p> <ul style="list-style-type: none"> <li>• <i>The services described by the PSCW already have an account to be recorded in, and</i></li> <li>• <i>The information is and can be collected by other means, and</i></li> <li>• <i>No compelling case has been made that the regulatory need for the accounts outweighs the burdens associated with their creation.</i></li> </ul> <p><i>The additional accounts proposed by the PSCW should not be adopted. As the FCC realized there is no need for the accounts and the PSCW accounts contradict where the FCC requires these revenues to be reported.</i></p> |
| 32.5081         | End User Revenue | <p>PSCW requested that SLC and non-SLC (e.g., USF assessments to end users) subaccounts be provided; the FCC did not adopt.</p> <p><i>WSTA: The subaccounts requested are not necessary.</i></p>   |

| Part 32 Section | Section Title                 | WSTA Comments   |
|-----------------|-------------------------------|---|
| 32.5082         | Switched Access Revenue       | <p>PSCW requested that flat-rate (PICC) and usage-based subaccounts be provided; the FCC did not adopt.</p> <p><i>WSTA: The FCC eliminated the requirement for separate accounts for interstate and intrastate revenues. The PSCW has indicated that maintaining subaccounts for interstate and intrastate revenues would assist in determining appropriate assessable revenues. Leave it up to the ILEC to determine their best means to accomplish PSCW reporting of this information between intrastate and interstate jurisdictions. The PSCW also proposed adding subaccounts for identifying flat-rate and usage based charges. It is unclear from discussions with the PSCW staff what the use of these accounts would be and they should not be adopted.</i></p>  |
| 32.5100         | Long distance message revenue | <p>PSCW requested that respective interstate and intrastate amounts should be provided.</p> <p><i>WSTA: The FCC eliminated the requirement for separate accounts for interstate and intrastate revenues. The PSCW has indicated that maintaining subaccounts for interstate and intrastate revenues would assist in determining appropriate assessable revenues. Leave it up to the ILEC to determine their best means to accomplish PSCW reporting of this information between intrastate and interstate jurisdictions.</i></p>  |
| 32.5200         | Miscellaneous revenue         | <p>PSCW requested retention of accounts 5230, Directory Revenue, and 5270, Carrier billing and collection revenue, with respective intrastate and interstate amounts provided for the latter account via subaccounts. FCC may have included some items in account 5200 which the PSCW requested be included in the account 5000 series.</p> <p><i>WSTA: The FCC and the PSCW are dramatically different in this area. The FCC eliminated all the accounts except one. The PSCW requested retaining accounts 5230 and 5270 including subaccounts for interstate and intrastate billing and collection. Mandatory sub-accounts or subsidiary records are not necessary. Leave it up to the ILEC to determine their best means to accomplish PSCW reporting of this information between intrastate and interstate jurisdictions.</i></p> |

| Part 32 Section | Section Title                             | WSTA Comments  |
|-----------------|---|--|
| 32.5280         | Nonregulated<br>Operating Revenue         | <p>Account 5280 has not been previously adopted by the PSCW for LECs not subject to dual jurisdiction or not having an approved cost allocation manual; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</b></p> |
| 32.5999         | General (Expense<br>Accounts)             | <p>The PSCW USOA contains a requirement for maintaining accounting records underlying the expense matrix categories in such detail that the total of the amounts distributed and the distribution is readily available for audit and reporting purposes.</p> <p><b>WSTA: In the FCC's Phase 1 Biennial Review Order on Accounting and ARMISS (CC Docket 99-253, released 3/8/00), the requirement to report an expense matrix was eliminated. PSCW should also eliminate the reporting of expense matrix information.</b></p>  |
| 32.6114         | Tools and other work<br>equipment expense | <p>PSCW has not yet adopted consolidation of accounts 6114 through 6116 into 6114, Tools and other work equipment expense.</p> <p><b>WSTA: The PSCW should adopt consolidation of accounts 6114 through 6116 into 6114, Tools and other work equipment expense.</b></p>  |
| 32.6212         | Digital electronic<br>switching expense   | <p>PSCW requested subaccounts for packet and ATM (which represents a compilation of packets); FCC's USOA adopted subaccounts for circuit and packet; FCC did not adopt subsidiary records requirement for main distribution frame, line cards, central processing and features to assist in identification of traffic versus nontraffic sensitive costs, as requested by PSCW.</p> <p><b>WSTA: See comments at 32.2212. The additional sub-accounts and subsidiary records are not necessary because Part 36 separations procedures identify plant in such a manner requested by the PSCW.</b></p>   |

| Part 32 Section | Section Title             | WSTA Comments   |
|-----------------|---------------------------|---|
| 32.6232         | Circuit Equipment Expense | <p>While FCC adopted subaccounts for electronic and optical, PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking unbundled network element (UNE) costs.</p> <p><i>WSTA: See comments at 32.2232. The imbedded historical cost amounts have no relationship to forward looking UNE's. The subaccounts that the PSCW is considering should not be adopted.</i></p>  |
| 32.6310-32.6362 | Various                   | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><i>WSTA: See comments at 32.2232, 32.2310-32.2362, and 32.6232. The subaccounts the PSCW is considering should not be adopted. Additionally, UNE costs do not make sense for this category.</i></p>  |
| 32.6410-32.6441 | Various                   | <p>PSCW had requested loop and interoffice transport subaccounts to evaluate reasonableness of forward-looking UNE costs.</p> <p><i>WSTA: See comments at 32.2232, 32.2310-32.2362, 32.6232, and 32.6310-32.6362. The subaccounts the PSCW is considering should not be adopted.</i></p>  |
| 32.6500 series  | Expenses                  | <p>PSCW requested separate accounts for UNE, interconnection, reciprocal compensation, federal universal service fund (USF) support, state USF support, purchased telecommunications service for resale, and collocation expenses; FCC did not adopt. The PSCW stated that the USF support accounts should contain subsidiary record categories for each type of support mechanism and that the UNE expense account should contain subsidiary records for each UNE defined in the UNE Remand Order.</p> <p><i>WSTA: See comments at 32.5000 series related to the corresponding revenue accounts. The accounts requested by the PSCW are not necessary as explained at 32.5000. Also, the FCC pointed out ILECs should not be reporting expenses related to the use of another carrier's facilities in the regulated accounts. Therefore, there will be limited, if any, activity in these accounts and they should not be adopted.</i></p> |

| Part 32 Section | Section Title                         | WSTA Comments   |
|-----------------|---------------------------------------|---|
| 32.6560         | Depreciation and amortization expense | <p>PSCW requested retention of former accounts 6561-6565; result of FCC's non-adoption is commingling of various types of depreciation and amortization expense amounts.</p> <p><b>WSTA: The PSCW should adopt the FCC's account for depreciation and amortization. Separation of the expenses to individual accounts is not necessary for reporting in the Annual Report.</b></p>  |
| 32.6610-32.6620 | Marketing-Services                    | <p>The PSCW requested that existing accounts 6611, 6612, 6613 and 6623 and the retail portion of account 6724, Information Management, be combined into a new account titled Retail Services; the PSCW also requested that existing accounts 6621 and 6622 and the wholesale portion of account 6724 be combined into a new account titled Wholesale Services. The FCC has established subaccounts for wholesale and retail in account 6620, Services, for Class A LECs except mid-sized LECs.</p> <p><b>WSTA: The PSCW should adopt the FCC's revisions to the "Customer Operations" category of expenses and retain the FCC's requirement for wholesale and retail sub-accounts of account 32.6620 for only Class A Companies. The operational changes necessary to comply with the FCC's changes to these accounts are significant and any further modification by the PSCW will significantly increase that burden and could cause a significant dual jurisdictional reporting problem.</b></p> |
| 32.6720         | General and Administrative            | <p>PSCW's USOA includes discretionary clearing subaccounts for pension and employee benefits, and payroll taxes in former account 6728, Other General and Administrative. Also see notes above concerning PSCW-requested treatment of account 6724.</p> <p><b>WSTA: The PSCW should adopt the FCC's changes for account 32.6720. The procedures for clearing various employee benefits have been standard in the general ledger and reporting systems utilized by ILECs and does not warrant establishing specific sub-accounts.</b></p>  |

| Part 32 Section | Section Title                       | WSTA Comments   |
|-----------------|-------------------------------------|---|
| 32.7100         | Other Operating Income and Expenses | <p>PSCW requested retention of existing accounts 7110, Income from Custom Work, and 7130, Return from Nonregulated Use of Regulated Facilities; FCC did not adopt.</p> <p><b>WSTA: The PSCW should adopt the FCC account 32.7100. The level of activity and total dollars are normally not significant for most Companies and does not warrant separate accounts.</b></p>   |
| 32.7300         | Nonoperating Income and Expense     | <p>PSCW requested that existing accounts be retained and account 7350 be renamed to Nonoperating Gains &amp; Losses; former account 7320, Interest Income, is required for PSCW's small telco earnings calculations.</p> <p><b>WSTA: The PSCW should adopt the FCC account 32.7300. The amount of interest income in former account 32.7320 needed for telco earnings reviews should be requested when needed by the PSCW.</b></p>  |
| 32.7500         | Interest and related items          | <p>PSCW requested retention of existing accounts 7500, 7510, and 7530, and combination of existing accounts 7520 and 7540 into new account 7521, Other Interest Expense.</p> <p><b>WSTA: The PSCW should adopt the FCC account 32.7500</b></p>  |
| 32.7990         | Nonregulated Net Income             | <p>PSCW's USOA contains subaccounts for Nonregulated Revenues and Nonregulated Expenses and is applicable to all LECs; PSCW's USOA also contains a note stating that LECs subject to FCC jurisdiction may elect to follow FCC accounting for this activity, however, they must also identify regulated and nonregulated amounts as required by the PSCW.</p> <p><b>WSTA: All ILECs are subject to the FCC's Part 32 rules and therefore dual jurisdiction by state and federal agencies. WSTA recommends the PSCW not deviate from the FCC's USOA guidelines. Recording transactions differently for the FCC and the PSCW will create two sets of financial records, increasing costs for the ILEC.</b></p> |
| 32.9000         | Glossary of Terms                   | <p>PSCW's USOA includes definition of "aggregate summary account"; PSCW's USOA does not include definition of "indexed revenue threshold" and the revised definition of "mid-sized incumbent local exchange carrier", which are included in the FCC's USOA.</p>   |

| Part 32 Section | Section Title | WSTA Comments   |
|-----------------|---------------|---|
| Other items     |               | <p>Cost allocation methodology</p> <p><i>WSTA: Consistent with our views on Part 32.27 the PSCW should not deviate from the cost allocation methodologies provided for in the USOA and Part 64. The three and two prong methods proposed by the PSCW are inconsistent with these FCC guidelines.</i></p>  |
| Other items     |               | <p>LOCOM/HOCOM studies – list of services</p> <p><i>WSTA: The list of services provide by the PSCW do not provide sufficient guidance on the type of services that should be subjected to HOCOM/LOCOM studies. The guidance necessary is dependent on the dollar threshold established by the PSCW. If the PSCW adopts the FCC's \$500,000 threshold for service(s) and asset sales and the centralized services exemption then the guidance required is minimal because the number of services or asset sales requiring a LOC/M/HOCOM studies is limited to other than routine transactions.</i></p> |
| Other items     |               | <p>Loan guaranteees (indirect and direct subsidies)</p> <p><i>WSTA: The loan guarantee compensation for direct and indirect subsidies proposed by the PSCW in various meeting with staff should not be adopted by the PSCW within the USOA. The FCC does not require compensation for these types of arrangements and the methods for determining the compensation on all types of guaranteees has not been determined.</i></p>   |
| Other items     |               | <p>Goodwill</p> <p><i>WSTA: The goodwill compensation methods proposed by the PSCW in various meetings with staff should not be adopted within the USOA. The FCC does not require compensation for goodwill to be recorded and a methodology that works for all Companies is unattainable. The goodwill concept is all encompassing and includes all types of goodwill, not just goodwill generated by the "parent". Therefore, until guidance is developed that can articulate the proper accounting for goodwill for all Companies, it should not be adopted.</i></p>                               |

| Part 32 Section | Section Title | WSTA Comments   |
|-----------------|---------------|---|
| Other items     |               | <p>“Except for retained earnings” tracking (including situations where affiliates are wholly-owned subsidiaries)</p> <p><b>WSTA: The requirement that the Annual Report to the Public Service Commission of Wisconsin contain a tracking worksheet for the except for retained earnings provisions of 196.204(1) should not be adopted. Companies that follow FCC Part 32 rules will have no subsidies. Under PSCW rules clear guidance on how the subsidies identified should be measured against 196.204(1) has not been developed. It is clear however that the settlement of the subsidy should include all available forms including, additional investments in the affiliate, writing off of the receivable from the affiliate (a method identified by the PSCW), and recording of the earnings from the affiliate under the equity method of accounting.</b></p> |

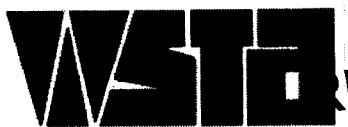
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<sup>1</sup> FCC 01-305, Paragraphs 65 – 68, Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286, Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286

05-US-113

# Wisconsin State Telecommunications Association, Inc.

## Small Company Committee



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September 20, 2002

Lynda L. Dorr  
Secretary to the Commission  
Public Service Commission  
P.O. Box 7854  
Madison, WI 53707-7854

Re: In the Matter of Prescribing a Uniform System of Accounts  
For Class A and Class B Telephone Utilities (Docket 05-US-113)

Dear Ms. Dorr:

The Wisconsin State Telecommunications Association (WSTA) – Small Company Committee files this letter and 15 copies on behalf of all WSTA small ILEC companies. The WSTA – Small Company members includes all independent, small incumbent local exchange carriers, in rural Wisconsin. This letter is submitted on behalf of the members of this group in response to the docket mentioned above.

The WSTA – Small Company Committee has reviewed and we do concur and support the WSTA comments regarding this docket.

The WSTA – Small Company Committee recommend that the Wisconsin Uniform System of Accounts for Class A and Class B telephone utilities be modified to implement the changes as a result of Federal Communications Commission (FCC) Docket # 00-199, 97-212 and 80-286, with very few exceptions. The WSTA comments clearly provide adequate support for minimizing the exceptions.

We strongly recommend that section 32.27 be adopted in its entirely to mirror the FCC 47 C.F.R. 32.27, Transactions with Affiliates with only one exception. The exception is to implement the WSTA recommended modification to section 32.27 (f). We concur with the WSTA recommended change.

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### COMMITTEE:

MIKE JENSEN, CHAIR, Amery  
PAUL BERG, New Lisbon  
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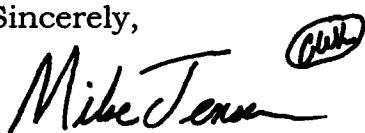
**LYNDA L. DORR - PUBLIC SERVICE COMMISSION  
SEPTEMBER 20, 2002  
PAGE TWO**

We also believe and recommend that there should be no increased annual reporting requirements in this Public Service Commission of Wisconsin annual report summarizing affiliated transactions.

The WSTA - Small Company Committee requests that this docket be reviewed by the Commission staff immediately and provide for a final order by early November. This will allow all telephone utilities to have adequate time to start implementing the Part 32 USOA revisions.

Dated this 20<sup>th</sup> day of September WSTA - Small Company Committee.

Sincerely,

A handwritten signature in black ink that reads "Mike Jensen". To the right of the signature is a small, oval-shaped red stamp containing the word "Chair".

Michael D. Jensen, Chair  
WSTA Small Company Committee

MT/MDJ:rd



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WISCONSIN PUBLIC SERVICE  
COMMISSION

September 20, 2002

Ms. Lynda Dorr, Secretary to the Commission  
Public Service Commission of Wisconsin  
P.O. Box 7854  
Madison WI 53707-7854

RE: In the Matter of Prescribing a Uniform System of ) Docket No. 05-US-113  
Accounts for Class A and Class B Telephone Utilities )

Dear Ms. Dorr:

Enclosed are original and 15 copies of Kiesling Associates LLP comments in the above referenced docket. The comments are being submitted in response to the Public Service Commission of Wisconsin's Notice of Investigation in Docket 05-US-113, dated August 19, 2002.

Sincerely,

KIESLING ASSOCIATES LLP

  
Scott R. Girard  
Senior Consultant

MFC  
COG  
ALJ  
OGC2  
Tel S

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

In the Matter of Prescribing a Uniform )  
System of Accounts for Class A ) Docket No. 05-US-113  
and Class B Telephone Utilities )

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**COMMENTS OF KIESLING ASSOCIATES LLP**

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**Introduction**

Kiesling Associates LLP (Kiesling) submits the following comments in response to the Public Service Commission of Wisconsin's (Commission) August 19, 2002 Notice of Investigation that provided an opportunity to offer comments regarding possible revisions to the Uniform System of Accounts (USOA) for Class A and Class B telephone utilities. Specifically, the Commission requested comments on the following list:

1. The Phase 2 Further Comments of the Public Service Commission of Wisconsin filed with the FCC on July 12, 2001, in CC Docket No. 00-199.
2. Whether the Commission should adopt 47 C.F.R. § 32.27, Transactions with Affiliates.
3. What consideration, if any, the Commission should grant ILECs subject to dual jurisdiction of the FCC and this Commission.
4. Commission staff analysis prepared for discussion purposes on July 24, 2002.

Kiesling is a certified public accounting and business consulting firm with over 50 years experience of auditing and providing consulting services to Incumbent Local Exchange Carriers (ILECs). Kiesling has over 200 ILEC clients, predominately with less than 50,000 access lines and located in the Midwest and Mountain states.

Kiesling audits 44 Wisconsin ILECs. Generally, our clients look to Kiesling for assistance in implementing accounting requirements adopted by the Federal Communications Commission (FCC) and the Commission. Given our extensive experience with numerous Wisconsin ILECs, Kiesling is in a unique position to provide comments to the Commission.

### **Executive Summary of Kiesling Comments**

Kiesling recommends that the Commission use the following principles in determining what changes should be made to the USOA.

1. Minimize differences between Wisconsin and Federal accounting requirements. All ILECs in Wisconsin are subject to maintaining accounting records in accordance with the FCC's Part 32 USOA. If the Commission imposes different requirements, it means Wisconsin ILECs have to maintain two separate accounts, one to report to the FCC and another to report to the Commission. The cost to maintain a state USOA that is different from the FCC's USOA can be significant, particularly if the Commission adopts the staff recommendations pertaining to accounting for affiliate transactions, unbundled network elements, and traffic and non-traffic sensitive plant accounts. Further, the staff recommendations that allow consolidation of multiple FCC USOA accounts does not simplify accounting for Wisconsin ILECs since the detail accounts have to be maintained for Commission purposes.  
Effectively ILECs are required to maintain accounts at the greatest level of detail required by either the FCC or the Commission. Kiesling is aware that the FCC has recently established a Federal-State Joint Conference on Accounting Issues. At this point it is uncertain what, if any, changes the Joint Conference will recommend regarding the USOA changes that were published February 6, 2002 in the Federal Register and are effective January 1, 2003. Kiesling believes it is

unlikely that the FCC will act on any Joint Conference recommendations prior to the January 1, 2003 effective date. As a result, Kiesling recommends the Commission proceed as scheduled with addressing what changes are appropriate to the USOA. Consistent with Kiesling's position that the Commission should start with the FCC's Part 32 USOA, any future changes to the USOA the FCC adopts from the Joint Conference's recommendations should be considered at the time the FCC adopts the changes.

2. Recognize that the primary purpose of the USOA is for recording historical financial transactions. The USOA is not intended to serve as a managerial accounting system or as the Commission's sole source of information. The Commission should avoid revising the USOA to address non-financial accounting issues, such as non-financial affiliated interest transactions and local competition issues. The USOA is not well suited to addressing non-financial issues at the level of detail necessary for the Commission to act. Instead, the Commission should use its general power to request information under Wis. Stat. 196.02, to collect the information it needs to address non-financial issues.
3. Consider cost to comply in addition to need for information. The staff recommendations give no consideration or thought to the concept of the cost to comply with the requirements. The Commission should have a compelling, specific need for the information that outweighs the cost to ILECs for complying with the USOA requirement. A general need of promoting competition is not sufficient; instead, the need should be specific on how it helps promote competition. The Commission consideration of cost is critical for two main reasons. One, the cost of complying is ultimately borne by the ILECs' customers. This is particularly an issue for Class B ILECs that have a smaller number of customers and the cost of

compliance per customer is greater than for Class A ILECs. Two, requiring ILECs to comply with USOA, while other competitors, such as wireless and cable providers, do not have to comply with USOA puts the ILECs at a competitive disadvantage.

4. Consider other reporting requirements instead of additional USOA requirements to accomplish Commission objectives. As mentioned before, the Commission is not limited to obtaining the information from USOA. The Commission has the authority under 196.02 to obtain information it needs to carry out its regulatory oversight. Kiesling is not aware that the Commission has not been able to obtain the information its needs to carry out its regulatory oversight responsibilities due to lack of USOA detail that staff has proposed. Instead, the Commission has relied on specific data request or reporting requirements to gather the information it needs. The concern is the additional USOA requirements will not eliminate or even lessen the Commission's need for specific data or reporting requirements. An added benefit of relying on specific data request is the ability to tailor the request to an individual company or modify the information requested to meet changing needs of the Commission.
5. Justify the inclusion of any additional reporting requirements, rather than requiring others to justify excluding additional reporting requirements. The staff approach seems to treat its proposal as what is presumed to be reasonable and others must provide the Commission with compelling reasons why the staff proposal should not be adopted. Instead, the Commission should start with the FCC's Part 32 USOA as what is presumed reasonable and all commentators, including staff, should provide compelling justification for changes to FCC's Part 32 USOA.

6. Adopt the FCC's Part 32.27, Accounting for Transactions with Affiliates, except for Paragraph (f), which excludes Average Schedule companies. Adoption of the FCC's Part 32.27 will provide a reasonable basis for recording financial transactions between affiliates. The Commission should not attempt to use the USOA for addressing non-financial transactions, such as goodwill and loan guarantees. Adopting Part 32.27 provides for a consistent basis for recording transactions and eliminates much of the controversy of accounting for transactions with affiliates. Adopting Part 32.27, including the Centralized services exemption and the \$500,000 threshold, will limit the application of the Higher of Cost or Market/Lower of Cost or Market (HOCOM/LOCOM) test to a limited number of cases, thereby eliminating a costly compliance requirement that provides little benefit. Part 32.27 utilizes Fully Distributed Cost (FDC) to account for most transactions. FDC is based on recorded historical information and is not reliant on market studies for which no basis has been established for performing market studies. Kiesling will provide additional comments on adoption of Part 32.27 later in our comments.

If the Commission uses the principles laid out by Kiesling, then the Commission will adopt the FCC's Part 32 USOA with some minor adjustments. As a result, the cost to comply with the revised USOA will be minimized and without any detriment to consumers.

The rest of Kiesling comments are by the four issues outlined in the Commission's Notice of Investigation.

**1. The Phase 2 Further Comments of the Public Service Commission of Wisconsin filed with the FCC on July 12, 2001, in CC Docket No. 00-199.**

The Commission submitted two sets of comments, the original comments dated December 21, 2000 and the further comments dated July 12, 2001. Both sets of Commission comments included an identical Attachment A that shows the FCC's proposed chart of accounts and a revised chart of accounts for the FCC's consideration. Kiesling's comments on Item #1 will encompass both sets of comments. Kiesling's comments on affiliated transactions (Part 32.27) and dual jurisdiction considerations, which are discussed in the Commission comments to the FCC, will be discussed in Item #2 and #3, respectively.

The Commission points out the difficulty they are causing ILECs with their modification of the FCC USOA. The continued modification to the USOA by the Commission has caused multiple accounting systems and if the Commission implements the changes outlined in their comments and in the Commission's Final Decision in Docket 1090-TI-100, dated November 16, 2001 (*Chibardun decision*), a complete separate set of books will ultimately be required<sup>1</sup>. This is supported by the following examples:

- See Item #2 and #4 on inconsistencies in accounting for affiliated transactions.
- The Commission has outlined in its Attachment A new accounts that are more than just subaccounts of existing accounts and that will categorize revenues and expenses in different areas of the income statement. One example is revenues generated from Unbundled Network Elements (UNEs) are recorded in account 5200 Miscellaneous Revenues for the FCC USOA

and the Commission is considering establishing account 5071 – UNE Revenues which is an account grouped with Local Service Revenue not Miscellaneous Revenues.

The Commission's approach to adopting changes is backwards. The FCC's approach is to focus on why an account, sub account, or subsidiary record is needed (justified inclusion). The Commission wants exclusion of any account, sub-account, or subsidiary record to be justified (justified exclusion). The Commission should be focusing on what is needed and why it is needed. The Commission expressed that the FCC should determine before eliminating information currently required, that the information is no longer needed on recurring basis, or that a carrier in fact will be able to provide the information when needed on an ad hoc basis<sup>2</sup>. ILECs in Wisconsin have demonstrated the ability to generate and provide information needed by the Commission when requested. The reporting of transactions and balances due from and to affiliates on pages 15 and 16 of the annual report to the Commission is just one example of supplying information to the Commission that is not spelled out in the USOA. The Commission requires on pages 15 and 16 of the annual report the reporting of information by each affiliate or group of affiliates if transactions are under \$25,000 annually. ILECs have been properly reporting this information even though the USOA, as amended by the Commission, does not require sub accounts or subsidiary records for this information.

The Commission is proposing numerous new accounts that are not needed (see detailed discussion on new accounts proposed by the Commission in Appendix A to WSTA's Comments). The rate of deployment for small ILECs is not significant, detail is

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<sup>1</sup> Phase 2 Comments of the Public Service Commission of Wisconsin before the Federal Communications Commission in CC Docket No. 00-199, dated December 21, 2000, page 4.

<sup>2</sup> Ibid., page 5.

not necessary, and insight to the Commission is not beneficial. Some of the accounts the Commission proposes are in direct conflict with current accounts within the FCC USOA (i.e. UNES) and other accounts would not have any transactions recorded in them (i.e. Intrastate SLC). Also, the information the Commission would be getting is only in total dollar terms and would provide little if any value in determining rates of deployment, cost of new technologies, and prices for services<sup>3</sup>.

The Commission states that the new accounts they propose are equally as applicable for Class A and Class B ILECs. The Commission needs to address the nature of and cost of compliance for Class B ILECs. A blanket requirement/statement that the new accounts are equally as applicable does not take into consideration the recordkeeping burden that the Class A accounts would place on relatively small Class B ILECs<sup>4</sup>. Class B ILECs do see the benefits of the Class A accounts for primary plant accounts. The Class A primary plant accounts have enabled Class B ILECs to establish depreciation rates within the guidelines established by the Commission per Wis. Stat. § 196.09(9), that are the most appropriate for the equipment included in the account and eased the calculation of depreciation expense each month.

Kiesling concurs with WSTA's comments on specific changes to the USOA as outlined in Appendix A of WSTA comments.

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<sup>3</sup> Ibid., p. 6.

<sup>4</sup> Ibid., p. 7.

**2. Whether the Commission should adopt 47 C.F.R. § 32.27, Transactions with Affiliates.**

As discussed above, Kiesling supports adoption of 47 C.F.R. § 32.27 (Part 32.27). While the Commission has not previously adopted Part 32.27, it should adopt Part 32.27 at this time. The lack of uniformity with Part 32.27 has contributed significantly to the ILECs' lack of understanding of how to account for transactions with affiliates. As the Commission's draft order in Docket 1090-TI-100 noted, the Commission has not provided clear guidance on the application of accounting for transactions between affiliates. ILECs have had to decipher Commission letters and company specific orders that are unclear in how other ILECs should apply those determinations to their own situations. Further, at times the Commission letters and company specific orders contradict previous guidance. Part 32.27, along with Part 64 Subpart I Allocation of Costs, provide a time tested basis for recording transactions with affiliates and non-regulated operations. The Commission should not attempt to "reinvent the wheel" of accounting for transactions with affiliates.

The Commission should adopt the use of Prevailing Price as specified in Part 32.27. In the FCC order, the FCC referenced comments filed by the Commission when the FCC determined that the 25% threshold established a market environment and significant influence over the price charged. The Commission should follow the FCC's determination and allow ILECs to use prevailing price to account for transactions with affiliates when 25% or more of the transactions are with non-affiliates.

Kiesling does not agree that the HOCOM/LOCOM test is appropriate in Wisconsin given Wis. Stat. § 196.204(1) requirement that neither telecommunications utility may allocate costs or expenses that would subsidize non-regulated activity, including any activity of an affiliate nor can the telecommunications utility allocate

revenues or expenses in a manner that would subsidize a regulated activity. Kiesling's opinion is Wis. Stat. § 196.204(1) requires the transfer price be symmetrical between affiliates, whether it is the affiliate or the telecommunications utility that provides the service or asset.

The Commission should adopt the two exceptions provided by the FCC in applying the HOCOM/LOCOM test. The two exceptions are the Centralized Services exception and the \$500,000 Threshold. The Centralized Services exception allows ILECs to use FDC for transactions with affiliates if the services were provided solely to members of the ILEC's corporate family. Adopting the Centralized Services exception recognizes that all entities, including the ILEC, benefit from the economy of scale when joint and common costs are shared among affiliates. The HOCOM/LOCOM test sends the opposite message in that affiliates are always better off by not buying or providing services to an ILEC affiliate. If the affiliate purchases services from the ILEC, it must pay the higher of market or cost and, therefore, the least cost to the affiliate is always market. Conversely, the affiliate has no incentive to sell to the ILEC since it must take the lower of its cost or market. Instead, the Centralized Services exception recognizes that for services solely provided within the corporate family that FDC is the most appropriate method of recording transactions.

The Commission should also adopt the FCC's \$500,000 Threshold for applying the HOCOM/LOCOM test. The FCC's \$500,000 Threshold is applicable to all ILECs and is not dependent on the size of the ILEC. The cost to comply is significant and, therefore, the need to prepare a HOCOM/LOCOM study should be limited to significant transactions. The cost to comply is not a function of company size so it inappropriate to apply a lower threshold for smaller ILECs. Therefore, the

Commission should adopt the FCC's \$500,000 Threshold for applying the HOCOM/LOCOM test for all ILECs.

Adoption of the Centralized Services exception and the \$500,000 Threshold will limit the use of HOCOM/LOCOM. Application of the HOCOM/LOCOM test on a limited basis is beneficial not only from a ILEC's cost of compliance perspective, but also from a Commission perspective given the lack of clear guidance from the Commission on how to comply with the HOCOM/LOCOM and the symmetrical requirements of Wis. Stat. § 196.204. Limited application of the HOCOM/LOCOM test allows the Commission to apply it on a case-by-case basis. However, if the Commission decides to establish a threshold less than \$500,000 or not adopt the Centralized Services exception, then it must establish clear guidelines on how ILECs are to perform the HOCOM/LOCOM test. Absent clear guidelines, the Commission should expect significant variation in how the test is applied by individual ILECs. For example, in a December 19, 2000 Commission staff letter to Ed Marion in Docket 1090-TI-100 the list of "services" includes some Part 32 account titles, such as Other General and Administrative which is not a service.

The one exception to the FCC's Part 32.27 rules Kiesling recommends the Commission not adopt is paragraph (f), which excludes Average Schedule companies from applying Part 32.27. Instead, Kiesling supports revising paragraph (f) of Part 32.27 so that it applies to Average Schedule companies, unless they are not subject to Wis. Stat. §§ 196.52 and 196.204. Kiesling recommends the first sentence of paragraph (f) be replaced with the following sentence: "Companies that employ average schedules in lieu of actual costs are subject to the provisions of this section, unless they are exempt from Wis. Stats. §§ 196.52 and 196.204." The proposed revision provides the same guidance on accounting for transactions with affiliates to

all ILECs subject to the affiliated interest statutes. However, if in the future an Average Schedule company was not subject to affiliated interest statutes, then it would also be exempt from Part 32.27.

**3. What degree of consideration, if any, the Commission should grant ILECs subject to dual jurisdiction of the FCC and this Commission.**

All ILECs are subject to the FCC's Part 32 rules; therefore, all ILECs are subject to dual jurisdiction. The Commission should consider all ILECs, not just the Class A ILECs, when determining what degree of consideration. Even small ILECs are required to follow the USOA and the recordkeeping burdens of the existing modifications of the USOA by the Commission are only compounded by the changes being considered at this time in 05-US-113.

As a general principle, the Commission should minimize having differences in accounting requirements between the FCC and Commission. Therefore, the Commission should adopt the FCC's Part 32 Accounting rules and the associated USOA. Commission should adopt different rules only when it meets a critical need of the Commission that can't be met using other information. Commission can request information outside of what information is contained in the accounting records to address issues like cross-subsidy with affiliates and local competition. Adopting the FCC Part 32 accounting rules is the most efficient method for ILECs, while requiring different accounting rules for Wisconsin is inefficient and adds costs without any significant benefit for the Commission's regulatory oversight.

**4. Commission staff analysis prepared for discussion purposes on July 24, 2002.**

Kiesling concurs with the Attachment A to the comments provided by the Wisconsin State Telecommunications Association (WSTA) in this proceeding. WSTA's Attachment A provides comments on the Commission staff analysis prepared for discussion purposes on July 24, 2002.

Kiesling offers specific comments on the following issues identified in the Commission staff analysis:

Relevant other items discussed in **accounting** for affiliated transactions should be addressed as following:

- In accounting for the direct subsidy of a loan guarantee, it is unclear how it applies to Holding Companies, non-100% owned affiliates, and guarantees that are not exactly like the guarantee addressed in the Commission's *Chibardun decision*. The FCC USOA does not require compensation for loan guarantees and the Commission has not determined the method(s) for determining the amount of compensation on all types of guarantees. Kiesling recommends that the Commission not adopt staff's proposal on loan guarantees within the USOA.
- In the *Chibardun decision*, the Commission determined that the value of the indirect subsidy of a loan guarantee was equal to an ILEC's net worth. Kiesling disagrees with the Commission's determination and recommends the Commission follow the FCC approach and not require compensation for loan guarantees, either for what the Commission has classified as direct or indirect.

- Consistent with our views on Part 32.27, the Commission should not deviate from the cost allocation methodologies provided for in the USOA and Part 64. The three and two prong methods proposed by the Commission are inconsistent with these FCC guidelines and the flexibility that these guidelines provide the ILEC. A different method, as proposed by the Commission, will require two methods to be used and all but assures two sets of books, one for the Commission and one for the FCC.
- Goodwill for the use of the name and other intangibles should not be required. The FCC has never required that goodwill be recorded and it is unclear how to apply the goodwill standard from the *Chibardun decision*.

Relevant other items discussed in **compliance** for affiliated transactions should be addressed as following:

- A tracking worksheet is not necessary for the Annual Report. Clear guidance on how the subsidies identified should be measured against Wis. Stat. § 196.204(1) has not been developed. Absent clear guidance, the tracking worksheet would be meaningless.
- Compliance with Wis. Stat. § 196.204 should also consider the ultimate effect on retained earnings and all forms of settlement of a subsidy that may have taken place. Recording of transactions, subsequent payment or writing off the amounts due (a method identified by the Commission), and recording the earnings of an affiliate under the equity method of accounting all have an effect on retained earnings and all should be considered when determining compliance with Wis. Stat. § 196.204.

## **CONCLUSION**

Kiesling recommends the Commission adopt the FCC's revisions to Part 32 USOA with minor exceptions. The minor exceptions Kiesling recommends are revising paragraph (f) of Part 32.27 as proposed in our comments and applying the Class A Primary Plant in Service accounts to Class B ILECs. Adoption of FCC's Part 32 USOA, as modified, allows ILECs to implement the revised USOA in the most cost efficient manner, while not causing harm to consumers or limiting the Commission's ability to carry out its regulatory duties.

Respectfully submitted,



Matthew P. Macdonald  
Partner  
Kiesling Associates LLP  
8517 Excelsior Dr., Suite 301  
Madison, WI 53717

OS-US-113



# Mark Pettis

STATE REPRESENTATIVE

September 20, 2002

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TELECOMMUNICATIONS  
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Lynda L. Dorr  
Secretary of the Commission  
Public Service Commission of Wisconsin  
P.O. Box 7854  
Madison, WI 53707-7854

RE: Docket No. 05-US-113 – Prescribing a Uniform System of Accounts for Class A and B Telephone Utilities

Dear Ms. Dorr:

I write to you today in support of the comments submitted by the Wisconsin State Telecommunications Association (WSTA) regarding Docket No. 05-US-113 – Prescribing a Uniform System of Accounts for Class A and B Telephone Utilities. As somebody who has actively worked to find a solution to these important issues in the legislature, I would appreciate your willingness to find an acceptable solution.

I agree the PSCW should adopt the FCC USOA with as few exceptions as possible. It is my understanding the FCC USOA is used as a common basis for recording and analyzing financial information by all ILECs throughout the country. Consistency of the PSCW's USOA with FCC USOA should result in lower accounting costs. The incremental costs associated with variations from the FCC USOA would have to be assigned to the state jurisdiction and ultimately result in higher service costs to the public. The general philosophy should be the creation of a simple, basic USOA.

Based on the fact all ILECs are subject to the current state affiliated interest requirements, they are simply looking for clear guidance on transactions with affiliates. I believe adoption of Part 32.27 would provide this. I would urge the PSCW not to make policy and procedures regarding transactions with affiliates based on isolated instances of non-compliance. In this regard, the PSCW should not use the USOA as a means for overseeing non-financial activities such as Goodwill and Loan Guarantees.

In conclusion, I urge the PSCW to adopt the FCC's revisions to the USOA with limited exceptions. The two key exceptions I recommend the PSCW make are that Class B Plant in Service Accounts should be the same as Class A Primary Plant Accounts, and Part 32.27 paragraph (f), which excludes average schedule companies should be modified, creating consistency for all telephone companies across the State of Wisconsin.

Thank you for your thoughtful consideration of this matter.

Sincerely,

*Mark L. Pettis*  
Rep. Mark Pettis  
State Representative  
28<sup>th</sup> Assembly District

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